15 December 2014 │ 226 pages   Telecommunications Operators

Western Europe

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The Phone Book

Feel the Need, the Need for Speed

* **4G has surged in Europe** — The European telecoms sector has outperformed the market by 10% in the last three months as evidence of traction for 4G started to mount. 3Q14 saw most operators grow mobile service revenue qoq more quickly than in either of the two previous years, some by a material degree (Figure 10). With 4G still only 6% of its handset base in Europe Vodafone’s data volume growth accelerated again to +64% yoy with video traffic up +88% while in the UK it saw volumes accessing YouTube jump +130% and Facebook +110%. BT’s move on EE looks to us to be the first deal partly 4.5G driven given the attraction of its spectrum.
* **Valuation challenge requires pause for breath** — The rally has positioned the sector again close to its 10-year peak on 12 months forward relative PE while on forward EV/EBITDA it is two standard deviations above its 10-year mean. As a result it is not surprising to see some settling back but we see the turn-around in the mobile industry’s fortunes as soundly based, and note that its pricing is now, finally, aligned with the growing data category. Our earnings sensitivity ranking puts Mobistar top where net income would move up 11% for a 1% rise in its mobile service revenue, next are TefD and KPN at 9% and then Vodafone at 6% (Figure 7).
* **Positive on 4G, investing and FCF growth** — We expect the key themes for 2015 to be rapid take up of 4G, gradually improving mobile operator pricing power, narrowing of the wholesale price discount to retail disadvantaging MVNOs, broadly rising capex and further consolidation. Previous consolidation moves are potentially helpful in Spain, Germany and France.
* **Stock picks** — We favour those operators that have the greatest earnings exposure to European mobile with Buys on Vodafone (Citi Focus List Europe), TefD, OTE, Mobistar and Elisa. We also retain Buy ratings on BT, DT, Swisscom and TeliaSonera and Sell ratings on TI and Altice. We make a number of changes to estimates and target prices (see Figure 5 for list of changes) including raising our target price on Orange to €15 per share (from €12) while retaining a Neutral rating.

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| Earnings sensitivity to a 1% increase in European mobile service revenue, 2015, % |
|  |
| Source: dataCentral, Citi Research |

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Themes from previous Phone Books

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| Figure 1. Index to Previous Phone Books and Their Sector Thematic Sections, with Links |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | Date | Report | Format |  | Thematic Sections | | **13 October 2014**  **16 June 2014** | **The Phone Book:** On the Slow Road back to Growth  [**The Phone Book**](https://ir.citi.com/8NOafRrSyV3qQQlQkJTpA0S8%2bwGJimtLreTTAXhlS%2bSZVUyElI18fE%2fD0B6xEgKOf0SlbbZx%2fus%3d)**:** 4G to Whatever-G included in Irish deal remedies | Long Format including both Company and Country sections  Short format including Country sections. |  | Incumbent estimate momentum improving  Optimism on remedies defies Irish facts | | **17 March 2014** | [**The Phone Book and 14th Conference Guide**](https://ir.citi.com/xRUzKl4K0meEbKfr7E7P12noHpcBfAiZQz5vh3ofSwYuZFZgZdeSDzqV6%2fuszH720I%2bvTH0FlJI%3d)**:** Diminishing Returns | Conference Guide format including Country sections. |  | Mobile VoIP: Heightened MVNO Risk | | **29 January 2014** | [**The Phone Book**](https://ir.citi.com/1AYXXCwu9wQwlTGUiuEi8Bi%2bVciLbolcrf313g9DUOlufEZfQB4Ua804X98kOzxjPXHRSGmNRlI%3d)**:** International Rescue | Long Format including both Company and Country sections |  | Consolidation: multiple markets  Domestic Operations' Implied Valuations  4G and Investing to Differentiate | | **16 September 2013** | [**The Phone Book**](https://ir.citi.com/VOJ7pez0iEeZTX8AqNaso3OsRyTZ4NL4ifVbYoG3RFOkwCC9dG0kxKHaPX1MhvczM3AVoS70TkY%3d)**:** The future’s Bright, Shame about the Present | Long Format including both Company and Country sections |  | M&A intensity set to stay | | **6June 2013** | [**The Phone Book**](https://ir.citi.com/A3EUMeyTkJvTihjh%2f8V2ZgO7N5M%2bi4OoqoXRG2MmSrgL%2fzbPMB5ktbJ8KhIVpCkv01L%2fZNqCz3I%3d):The Tempest: Telco’s at the commission | Short format including Country sections. |  | European Commission: likely proposals  Superfast broadband regime on track  Single digital market | | **14 March 2013** | [**The Phone Book & 12th Conference Guide:**](https://ir.citi.com/obty4NT43Ix%2b1MlgsgNYpiK2UQVyObE7pJx0jOUHIRjHpgAZizJw3kTOsrDRSgx4) Telco Spring? | Conference Guide format including Country sections. |  | Regulatory Transformation a Clear Positive  Quad Play from Conquest to Retention  4G Premium Hopes Somewhat Diminishing | | **4 January 2013** | [**The Phone Book**](https://ir.citi.com/DjqgfVP5dmABlWNrjF3iAxmLX5FgQdhSmjsXOMSHZMHbZwUe8UU3GvE310uKUBbxOVR7ze65BUo%3d)**:** Is the Winter of Discontent to become Glorious Summer? | Long Format including both Company and Country sections |  | Organic EBITDA trends, 4G pricing, MVNOs  Superfast broadband, Exec pay, new technologies | | **5 September 2012** | [**The Phone Book**](https://ir.citi.com/QEhStIJ3Q4%2fji5RzU8LqeDHNm%2fW1BZ5AJFJofZFP9MjwUnAQ41eMPd%2f1KYLA2Ynv)**:** Short Term Worsens, Signs Of Hope Longer Term | Short format including Country sections. |  | Fixed and mobile market trends | | **25June 2012** | [**The Phone Book**](https://ir.citi.com/aWmzXkp%2fZu0As%2b4sUvZcv7QzOFFdg3TUlDmaeu0L6IHbIzIzMqHjdDeMsb1FA49ix9h9t2ikxgA%3d)**:** Bargain Hunters on the Telco Tundra | Long Format including both Company and Country sections. |  | Dividend, credit rating risk | | **19 March 2012** | [**The Phone Book & 12th Conference Guide**](https://ir.citi.com/yI7xJtf%2fysP8akbtYa287KAPk5u0V6SqoxcO%2bB1ixCoPp3a8MfYNxJWlP3ZOjN475Ktdh0dVqxg%3d)**:** Blue Sky, Obscured by Clouds | Conference Guide format including Country sections. |  | Credit ratings risk  Mobile relative pricing: McMinutes  Spectrum  Tech – More chips on the table: VoLTE, WP8, <$100  smartphones  Mobile payments | | **6 January 2012** | [**The Phone Book**](https://ir.citi.com/GHd%2fpj17g36ozqpviIZN1qC4qoDhP9AdSYHPzB0lH7K70aNLpTa%2b83RFx8yaks%2fxKnhFW57LWqg%3d)**:** No 1s txtN Ny mor, nt gr8 | Long Format including both Company and Country sections. |  | Text messaging cannibalisation risk  Upping mobile data game with TD-LTE  M-payments and NFC  Credit events: where is it critical?  Euro break-up: Unlikely but implication?  M&A: Austria and Switzerland | | **22 August 2011** | [**The Phone Book – Post 2Q11**](https://ir.citi.com/5v8nTwId65On8JUpikzzIVQDe%2fvdG4OX56u4hh6Ri0PZH%2fMh3v1FIw%3d%3d)**:** A Few Rubies among the rubble | Short format including Country sections. |  | Dividend cover and earnings momentum  Earnings revisions vs share price performance | | **14 June 2011** | [**The Phone Book**](https://ir.citi.com/oc1zCxetMH5Lm8yUL6YP89P%2fqvEnGaB%2fFBi1RsNay5EaJrwUbb3Zbw%3d%3d)**:** A Few Diamonds among the Debris | Long Format including both Company and Country sections |  | Interest rate sensitivity  Wage inflation exposure  Welcome to the future pricing model  India’s New Telecoms Policy  Mobile phones and health | | **18 March 2011** | [**The Phone Book & 11th Conference Guide**](https://ir.citi.com/x9J3qG%2bwcqXameU4bGPANjpBS9EzcFTvjy8a8d1Aoulz0sHty%2bIcfw%3d%3d)**:** The Winners from the Android Invasion | Conference Guide format including Country sections |  | Smartphone take-over, Android overtakes  Merger and acquisition potential  Regulation: roaming and fibre deployment  De-equitisation and distribution capacity  Raising revenue on wholesale Internet traffic  Spectrum spend to fall in 2011 | | **9 December 2010** | [**The Phone Book**](https://ir.citi.com/3LpCboTpo52UMGfqQeLp%2bbcpZidmoy3kIDzOnydjzs%2fvkP8H%2bgYrew%3d%3d)**:** Telecoms in 2011 – Delivering the Dividend Promise | Long Format including both Company and Country sections |  | Rerating - a job only half done  Earnings outlook justifies higher rating  Austerity to drag for some time  A new price model for Internet peering?  Smartphones and data growth  Spectrum auctions set to moderate  Regulatory focus broadband & MTRs | | **6 August 2010** | [**The Phone Book - post 2Q10**](https://ir.citi.com/4IKUNIcoHUgOASrXJzxjh7egCjMPMJrzGgLcMXbrsexOGvmTf3JrCg%3d%3d)– The Good, the Bad and the Ugly | Short format including Country sections |  |  | | **1 July 2010** | [**The Phone Book**](https://ir.citi.com/5QmISAwWXR2DnjpRZ02wVrGIiAPuI9q3zoIEcGLtAd2TSRmUO5Hr3w%3d%3d)– A Two Speed Europe | Long Format including both Company and Country sections |  | A Two Speed Europe  Dividends | |  |  |  |  |  | |  |  |  |  |  | |
| Source: Citi Research |

Feel the Need, the Need for Speed

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| Figure 2. European Telecoms Performance  Total shareholder return, index: 2 Jan 12 = 100 |
|  |
| Note: FTSE W Europe telecoms index (€s) Source: DataStream |

European Telcos have outperformed the market year to date in 2014 by 5.0% (total shareholder return) after a surging 10.3% relative recovery in the last three months. We expect the key themes for 2015 to be rapid take up of 4G, gradually improving mobile operator pricing power, narrowing of the wholesale price discount to retail disadvantaging MVNOs, broadly rising capex and further consolidation. We expect evidence from the earlier fixed/mobile combinations to support further in-market deals along convergence lines but for mobile/mobile combinations to be held back by the cartel office remedies, limiting near term benefits for market repair. We expect the European Commission to formally abandon the so-called single digital market legislation and roll it into a review of the industry’s regulatory agenda due in 2015.

The better operational performance that we noted last quarter ([The Phone Book - On the Slow Road Back to Growth](https://ir.citi.com/p1W%2fh0DstMU9pKaEXi4cic3%2fGLXp6cZ8Uy5dl1MUE6f19J1U9%2bysfSt9bWruRcFp), 14 October 2014) has continued to firm as expected but valuation has run somewhat ahead. The European mobile service revenue decline improved again to -5.1% yoy in 3Q14 vs -7.5% in 2Q14. The drag from MTR cuts improved to only 0.5ppts while the ex-MTR decline was better at -4.6% yoy vs -6.2% in 2Q14. For incumbent fixed line revenue deteriorated slightly to a fall of -2.3% yoy vs a much improved -2.0% in 2Q14 driven by slower performance in Germany and Norway offset by improving trends in Italy, Spain and France.

The sector is again close to its 10-year peak on 12 months forward relative PE (Figure 4) and is close to its 10-year high on forward EV/EBITDA (Figure 3) where it is two standard deviations above the mean.

We favour those operators that have the greatest earnings exposure to European mobile with Buys on Vodafone (Citi Focus List Europe), TefD, OTE, Mobistar and Elisa. We also retain Buy ratings on BT, DT, Swisscom and TeliaSonera and Sell ratings on TI and Altice.

We see industry regulation as fading in significance for investors for now while the competition authorities agenda is likely to remain key. We expect the new European Commission to conduct a policy review, consistent with calls from some parliamentarians earlier in the year but that this year’s single digital market bill will be shelved.

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| Figure 3. European telecoms sector EV/EBITDA, 12 months forward  SXKP (STOXX 600 Telecoms Index), ±1 standard deviation (10 years) |  | Figure 4. European telecoms sector P/E and P/E relative  Europe ex-emerging markets Datastream Telecoms index, 12 months fwd |
|  |  |  |
| Source: Bloomberg |  | Source: Datastream |

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| Figure 5. Summary of changes to estimates and target prices |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | |  |  | **Rating** |  | **Price Target** |  | **EPS Estimates** | | | **Company** | **RIC** | **Old** | **New** | **Old** | **New** | **Old** | **New** | | Deutsche Telekom | DTEGn.DE | Buy | Buy | € 13.50 | € 14.00 | € 0.59 | € 0.59 | | Elisa | ELI1V.HE | Buy | Buy | € 26.00 | € 28.00 | € 1.42 | € 1.42 | | KPN | KPN.AS | Neutral | Neutral | € 2.80 | € 2.75 | € 0.03 | € 0.01 | | Orange | ORAN.PA | Neutral | Neutral | € 12.00 | € 15.00 | € 1.25 | € 1.23 | | OTE | OTEr.AT | Buy | Buy | € 15.00 | € 15.00 | € 0.57 | € 0.56 | | Swisscom | SCMN.VX | Buy | Buy | SFr600 | SFr640 | SFr34.5 | SFr34.3 | | Telefonica | TEF.MC | Neutral | Neutral | € 11.50 | € 11.50 | € 0.69 | € 0.69 | | Telekom Austria | TELA.VI | Neutral | Neutral | € 6.44 | € 6.10 | € 0.59 | € 0.67 | | Telefonica Deutschland | O2Dn.F | Buy | Buy | € 4.74 | € 4.74 | -€ 0.20 | -€ 0.15 | | TeliaSonera | TLSN.ST | Buy | Buy | SKr58.0 | SKr58.0 | SKr3.6 | SKr3.6 | | Inmarsat | ISA.L | Buy | Buy | $8.25 | $8.70 | $0.44 | $0.44 | | Com Hem | COMH.ST | Neutral | Neutral | SKr54.0 | SKr54.0 | SKr-1.01 | SKr-1.82 | | Drillisch | DRIG.DE | Buy | Buy | $42.0 | $42.0 | €1.07 | €1.05 | | Telecity | TCY.L | Buy | Buy | £9.0 | £9.2 | £0.381 | £0.378 | |
| Source: dataCentral, Citi Research |

Mobile service revenue sensitivities

Our earnings and EBITDA sensitivities assume 1% higher service revenue in 2015 and a 75% incremental margin.

In Figure 6 we set out the sensitivity of each of our main coverage names to mobile service revenue generated in Europe. These are ranked in Figure 7 for the earnings sensitivity and Figure 8 for EBITDA. This assumes 1% higher service revenue in 2015 (or FY16 for Vodafone) than we are currently forecasting and a 75% incremental margin on the additional revenue, regardless of the stock.

Most sensitive is **Mobistar** which would see net income move up 10.9% for a 1% rise in its mobile service revenue. Next comes **TefD** on 9.4%, then **KPN** on 8.8% and **Vodafone** on 6.1%. **Numericable SFR** is fifth at 4.4%. **OTE** and **Telecom Italia** are roughly in the middle of the table. Lower down the table are stocks where European mobile is more heavily diluted by fixed incumbent businesses or consolidated operations from outside Europe, or that are less financially levered. **Telenor**, **TDC** and **Swisscom** come out least sensitive of the names.

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| Figure 6. Mobile service revenue sensitivity for Group EBITDA – a 1% upward move in European mobile service revenue in 2015  Reporting currency, millions, assuming 75% gross margin on additional mobile service revenue |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  | **Price Target** | **EBITDA 2015E** | **Scenario EBITDA 2015E** | **% change** |  | **Adj. Net Income 2015E** | **Scenario Adj. Net Income 2015E** | **% change** |  | **Revenue 2014E/ FY15** | **Revenue 2015E/ FY16** | **Mobile Ser Rev 2014 PF** | **Mobile Ser Rev 2015E** | **Organic growth, yoy** | | **New Mob Svce Rev 2015E** | **New Ser Rev growth** | | Mobistar | € 23.00 | 265 | 272 | 2.63% |  | 42 | 47 | 10.92% |  | 1,268 | 1,228 | 964 | 930 | (3.5%) |  | 939 | (2.6%) | | TEF De | € 4.74 | 1,536 | 1,576 | 2.61% |  | (428) | (388) | 9.36% |  | 5,516 | 7,480 | 5,416 | 5,339 | (1.4%) |  | 5,392 | (0.4%) | | KPN | € 2.75 | 2,570 | 2,589 | 0.74% |  | 153 | 166 | 8.76% |  | 7,914 | 7,624 | 2,697 | 2,547 | (5.6%) |  | 2,573 | (4.6%) | | Vodafone\* | £2.50 | 12,502 | 12,651 | 1.19% |  | 1,803 | 1,913 | 6.07% |  | 42,343 | 43,300 | 19,834 | 19,866 | 0.2% |  | 20,065 | 1.2% | | Num SFR | € 30.00 | 3,407 | 3,449 | 1.23% |  | 621 | 649 | 4.44% |  | 1,342 | 11,129 | 5,916 | 5,609 | (5.2%) |  | 5,665 | (4.2%) | | Tele2 | SEK 90.0 | 5,696 | 5,784 | 1.55% |  | 1,806 | 1,872 | 3.66% |  | 25,461 | 26,472 | 10,561 | 11,759 | 11.4% |  | 11,877 | 12.5% | | Telefónica | € 11.50 | 15,850 | 15,960 | 0.69% |  | 2,486 | 2,568 | 3.31% |  | 52,238 | 52,178 | 14,904 | 14,654 | (1.7%) |  | 14,800 | (0.7%) | | Tel Austria | € 6.10 | 1,294 | 1,302 | 0.62% |  | 207 | 213 | 3.06% |  | 4,033 | 4,044 | 1,080 | 1,067 | (1.2%) |  | 1,078 | (0.2%) | | OTE | € 15.00 | 1,443 | 1,454 | 0.76% |  | 358 | 366 | 2.20% |  | 3,920 | 3,898 | 1,438 | 1,462 | 1.7% |  | 1,476 | 2.7% | | Tel Italia | € 0.60 | 8,351 | 8,384 | 0.40% |  | 938 | 958 | 2.12% |  | 21,697 | 20,757 | 4,618 | 4,455 | (3.5%) |  | 4,499 | (2.6%) | | Elisa | € 28.00 | 541 | 546 | 1.03% |  | 240 | 245 | 1.71% |  | 1,528 | 1,529 | 740 | 739 | (0.1%) |  | 746 | 0.9% | | Orange | € 15.00 | 11,921 | 12,005 | 0.71% |  | 3,175 | 3,227 | 1.64% |  | 39,137 | 38,497 | 11,612 | 11,218 | (3.4%) |  | 11,331 | (2.4%) | | Deutsche Tel | € 14.00 | 19,157 | 19,256 | 0.52% |  | 4,663 | 4,735 | 1.55% |  | 62,663 | 65,568 | 13,243 | 13,265 | 0.2% |  | 13,398 | 1.2% | | Belgacom | € 32.00 | 1,659 | 1,669 | 0.59% |  | 528 | 535 | 1.40% |  | 6,077 | 5,898 | 1,307 | 1,313 | 0.5% |  | 1,326 | 1.5% | | TeliaSonera | SEK 58.0 | 34,576 | 34,840 | 0.77% |  | 16,294 | 16,479 | 1.14% |  | 100,825 | 100,825 | 34,900 | 35,292 | 1.1% |  | 35,645 | 2.1% | | BT & EE\* | £4.50 | 8,280 | 8,324 | 0.53% |  | 3,241 | 3,276 | 1.08% |  | 24,341 | 24,642 | 5,719 | 5,843 | 2.2% |  | 5,901 | 3.2% | | Swisscom | CHF 640 | 4,588 | 4,613 | 0.55% |  | 1,908 | 1,929 | 1.08% |  | 11,645 | 11,823 | 3,363 | 3,337 | (0.8%) |  | 3,370 | 0.2% | | TDC | DKK 50.0 | 10,325 | 10,362 | 0.35% |  | 3,226 | 3,254 | 0.87% |  | 23,301 | 24,966 | 5,189 | 4,877 | (6.0%) |  | 4,926 | (5.1%) | | Telenor | NOK 155 | 39,974 | 40,134 | 0.40% |  | 14,435 | 14,547 | 0.78% |  | 109,098 | 112,651 | 21,512 | 21,317 | (0.9%) |  | 21,530 | 0.1% | |
| Source: Citi Research Estimates \*FY16 for Vodafone and BT & EE (proforma inc synergy) |

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| Figure 7. Earnings sensitivity to 1% increase in European mobile service revenue  % change in 2015 adj net income assuming 75% incremental margin and group average tax rate |
|  |
| Source: Citi Research Estimates Note: FY16 for Vodafone and BT & EE (proforma inc synergy) |

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| --- |
| Figure 8. EBITDA sensitivity to 1% increase in European mobile service revenue  % change in 2015 EBITDA assuming 75% incremental margin and group average tax rate |
|  |
| Source: Citi Research Estimates Note: FY16 for Vodafone and BT & EE (proforma inc synergy) |

## Context is the sharp fall in mobile services market

The context for thinking about how far the European mobile market might recover can be seen to a degree from the falls in revenue from peak, Figure 9, and the speed of the recent improvement in sequential growth, Figure 10. From their peak the European markets have seen mobile service revenue fall by on average 23%. The three worst performing markets were Italy which is down 40% from its peak in 3Q06, Spain which is down 48% from its peak in 3Q07 and Greece which has more than halved, falling 54% from a peak also set in 3Q07.

There is a stark contrast with Sweden which just set its new peak revenue in 3Q14 which was up by 2% on 2Q14. Next best are Germany and the UK which are off 11% from peaks set in 3Q06 and 3Q08 respectively. Belgium and France sit in the middle of the table.

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| Figure 9. Fall from peak of mobile service revenue by 3Q14  % decline from peak revenue quarter for market (indicated), in local currency |
|  |
| Source: Company Reports and Citi Research Estimates |

### Even once seasonally adjusted 3Q14 saw a strong recovery

Mobile is seasonal, and 3Q tends to be the strongest quarter due to working days and roaming, so Figure 10 shows how sequential growth in 3Q14 compared to the third quarters in the previous three years. It shows that most operators grew more quickly sequentially qoq in 3Q14 than in either of the two previous years, some by a material degree.

Best performers in 3Q14 were Telenor Norway, TIM Italy, Vodafone Italy and Tele2 Sweden, all of which grew sequentially significantly faster than in any of the previous three years. On average the operators included grew revenue 1.6% sequentially vs a contraction of 1.5% qoq in 3Q13 and of 1.1% in 3Q12.

We expect that in a number of markets 3Q14 will represent the start of a decent recovery in fortunes for mobile operators that have now moved past deflation from MTR cuts and in some cases from tariff restructuring.

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| --- |
| Figure 10. Sequential growth in mobile service revenue improving for most operators  Growth qoq in local currency, % |
| CIRACHART |
| Source: Company Reports and Citi Research Estimates |

4G takes centre stage

A number of the European operators have disclosed more detail of their progress with 4G in the last few months, as take up has increased and the customer reaction has firmed up.

Vodafone saw a marked pick up in data volumes in both Europe and its mainly emerging markets division (AMAP) in its latest quarter (Figure 12). In Europe its data volumes rose +64% yoy with video traffic up +88%. For Vodafone UK growth data volumes from customers accessing YouTube (+130%) and Facebook (+110%) outpaced the average over the last six months.

Given that 4G was still only 6% of Vodafone Europe’s base at the end of September (Figure 14) and the iPhone 6 was only launched late in the quarter we believe that this inflection is still in its early stage. As Vodafone has pointed out only half of its users take a data service and of those that do only 35% take a bundle larger than 0.5GBytes/month (Figure 15).

|  |  |  |
| --- | --- | --- |
| Figure 11. Global Usage Statistics  Data volume per customer, any SIM (MB/month, 1Q14) |  | Figure 12. Vodafone Group total data volume  Petabytes per quarter, Italy at 100% throughout |
|  |  |  |
| Source: tefficient, Vodafone |  | Source: Company Reports |
| Figure 13. Vodafone Smartphone data usage (MB/month)  GBytes per month |  | Figure 14. Vodafone: smartphone penetration rising, 4G still early  Vodafone Europe smartphone penetration of base, % |
|  |  |  |
| Source: Company Reports |  | Source: Ericsson |
| Figure 15. Vodafone: Distribution of monthly data usage  % distribution of monthly data usage across Germany, Italy, UK, Spain |  | Figure 16. Typical usage on different web destinations  MBytes per month |
|  |  |  |
| Source: Company Reports |  | Source: Ericsson |

## The iPhone 6 effect

The iPhone 6 could have a measurable impact on European mobile service revenue growth on its own, with those taken up by March alone adding 0.6% to European service revenue for the service if they average the equivalent of half a tier Vodafone Red upgrade on plus around another 1.1% for handset cost recovery.

The iPhone 6 started to go on sale in late September (Germany, France and the UK from 19 Sep, the other large European markets on 26 Sep) but relatively few would have been connected to the networks by the end of that quarter. By end Dec we expect 21.5m iPhone 6 and 6 Pluses to have been shipped worldwide (from our estimates for Apple), with another 54m shipping in 1Q14. Of those we expect Western Europe to account for around 3.7m by end Dec and 8.4m in 1Q15. Cumulatively this is 1.3% of Europe’s around 280m postpaid users by end-Dec 14 and 4.3% by end-March.

Assuming a customer starts on Vodafone Red the average cost of stepping up to the next data tier comes to €9.4 per month ex VAT (SIM only) across its major European markets (excluding Italy). If each new iPhone 6 customer takes the equivalent of a half tier Vodafone Red upgrade, on our estimates that would add €0.20 to industry postpaid ARPU (averaging around €26.8 including handset cost recovery in 3Q14) or around 0.6% to total European service revenue. The handset cost recovery (assuming displacement of a lower priced smartphone) would add around another €0.3 or 1.1%, on our estimates, offset by the payment to Apple.

Consequently, in our view, the iPhone 6 could have a measurable impact on European mobile service revenue growth on its own, and a more pronounced one that previous upgrades as the price plans are now, finally, geared to customer use of data which the iPhone 6 promotes.

## Video continuing to strengthen

Vodafone reports that video is making up more of its European customers’ data usage (40% in September 2014 vs 35% of a lower number a year before - Figure 17) and that they are increasingly streaming video in higher definitions. For Vodafone Italy, 480p or higher HD video has reached 43% of video streaming up from 23% a year ago (Figure 18). Encouraging this is the continued increase in screen sizes – in Europe 63% of smartphones in Vodafone’s base now have screens over 4in vs. 31% a year ago.

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| Figure 17. Vodafone: streaming volumes increasing in the mix  Video and audio streaming % of total data traffic (Europe) |  | Figure 18. Vodafone: Video usage increasingly HD  Mix of video streaming (Vodafone Italy) |
|  |  |  |
| Source: Company Reports |  | Source: Company Reports |

## Correlation between content and data bundle choices

Vodafone has also demonstrated, using UK results, that customers’ choice of 4G data bundles correlates with the content option they select (first six months free). Vodafone UK offers Sky Sports, Spotify or Netflix and has recently added Now TV Sky Movies. These each generate a higher take up of the larger bundles on average than is seen for customers with no content offer. So far Netflix has had the strongest impact on data tier choice and Sky Sports the least. In the UK, Vodafone Red’s pricing is tiered in £5 increments inc VAT and includes unlimited voice and text for free.

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| Figure 19. Vodafone: content packages drive choice of bundle  Mix of Red customer connections in the UK |  | Figure 20. Vodafone UK pricing tiers(unlimited voice and text)  £/month inc VAT |
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| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Nordic markets show similar strength

Similar strength in growth in volumes is evident from reports from the Nordic operators. For Telenor in its home market data volumes have stepped up and ARPU has inflected upwards (Figure 21). Higher average volumes are seen at Telia in Sweden which is now seeing consumers average over 900Mbytes per month (Figure 22). This is well above Telenor’s average which is a median but also held back by its relatively late adoption of bundled pricing. Elisa has seen a sharp rise in customers choosing to take speeds of 21Mbps or above (Figure 23) with a 3x increase in those taking up to 50Mbps service in 3Q14 vs two years before.

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| Figure 21. Telenor (Norway): ARPU inflection, median data usage  ARPU in NOK/month, MBytes per active data customer per month |  | Figure 22. Telia (Sweden): Data usage well ahead of Telenor and growing  GBytes per month |
|  |  |  |
| Source: Company Reports |  | Source: Company Reports |
| Figure 23. Elisa: Mobile customers by data speed categories  % |  | Figure 24. Connectivity used most often on smartphones  % |
|  |  |  |
| Source: Company Reports |  | Source: Elisa citing Deloitte Global Mobile Consumer Survey 2014 |

## Industry expects continued strong growth in volume

Ericsson thinks that monthly global smartphone traffic that it put at 2.1 exabytes in 2014 will rise 8-fold by 2020 to 17 exabytes (Figure 25). An exabyte is 1 billion gigabytes and a gigabyte is 1 billion bytes (roughly).

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| Figure 25. Ericsson usage forecasts  Per customer usage in Gigabytes, total traffic in Exabytes (1bn GB) |  | Figure 26. Proportion of video in traffic by network generation  % of total volume (ranges) |
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| Source: Ericsson |  | Source: Ericsson |

As Figure 27 illustrates 3GPP has defined the standards required for various carrier aggregation band combinations in Europe. These are starting to appear in limited geographies in service with operators, for example, Orange France and Vodafone UK. With 3GPP release 12 carrier aggregation will become possible between paired and unpaired ranges allowing carriers to use TDD spectrum and to dedicate more capacity to the more congested downlink.

Traffic can be up to 9:1 in favour of downlink, although as uplink relies on the low power transmitter in the device it requires more spectrum per byte transmitted to compensate, typically around twice as much. While more customers are now making use of uplink, to upload pictures onto Facebook for example, we expect growth in video and audio streaming to keep the downlink demand growing at a similar pace. We discussed this at greater length in [Breaking Symmetry - Race for Downlink Spectrum to Reshape the Wireless Industry](https://ir.citi.com/bxYBHOXhpk6w09pyAQ%2bfaVj8oOGprapb54acy239d7%2f2OHGRtd5yG0w%2b%2baOn5ylMpxfh2XDj1ac%3d).

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| Figure 27. Carrier Aggregation FDD Band Combinations for Europe  MHz |
|  |
| Source: 3GPP |

Quarterly European Mobile Trends

The decline in European mobile service revenue in 3Q14 improved to ‑5.1% vs ‑7.5% in 2Q14. The headwind from MTR cuts was lower than last quarter at ‑0.5ppts in 3Q14 vs. ‑1.3ppts 2Q14 with the underlying decline (ex-MTR cuts) improving marginally to -4.6% in 3Q14 from -6.2% in 2Q14.

### Call volume growth holding up

Call minute growth in 3Q14 improved to 4.1% vs. 3.1% in 2Q14 and 3.3% in 1Q14, mainly driven by strong growth in all the markets particularly Switzerland, Belgium, Italy and Denmark.

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| Figure 28. European mobile service revenue excluding mobile termination rate cuts |  | Figure 29. Mobile service revenue growth excluding the impact of mobile termination rates by country |
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| Source: Company reports, Citi Research |  | Source: Company reports, Citi Research |
| Figure 30. European mobile minutes growth |  | Figure 31. European mobile minutes growth by country |
|  |  |  |
| Source: Citi Research, company reports |  | Source: Citi Research, company reports |

### Churn slightly up again

Average contract churn improved sequentially at 16.7% from 17.2% in 2Q14 while remain flat vs. a similar rate in 3Q13. Post-pay net adds improved to 2.8m in 3Q14 compared to 2.6m in 3Q13.

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| Figure 32. European mobile churn and contract churn |  | Figure 33. European post-pay net adds |
|  |  |  |
| Source: Company reports, Citi Research |  | Source: Company reports, Citi Research |

Quarterly European Fixed Line Trends

The yoy decline in incumbent fixed line revenue deteriorated slightly to -2.3% after improving to -2.0% in 2Q14 (backed by strong growth at T Systems Germany) mainly driven by slow down in Germany and Norway offset by improving trends in Italy, Spain and France. Retail line loss slightly deteriorated both for incumbents and (modestly) for the market as a whole. Broadband net adds shown improving trends in 3Q14 at 836k vs. 730k in 3Q13 driven by higher fiber penetration.. Cable operators continue to gain share in Germany, Belgium, Austria and the Netherlands.

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| Figure 34. European sector fixed incumbent revenue decline and line loss |  | Figure 35. Incumbent retail line loss |
|  |  |  |
| Source: Company reports, Citi Research |  | Source: Company reports, Citi Research |
| Figure 36. European broadband net adds |  | Figure 37. Change in incumbent broadband market share over last 2 years |
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| Source: Company reports, Citi Research |  | Source: Company reports, Citi Research |

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| Figure 38. Telecoms Valuation comp sheet (15 Dec 2014) |
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| Source: Citi Research |

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| Figure 39. Telecoms Valuation comp sheet (15 Dec 2014)cont |
|  |
| Source: Citi Research |

Incumbents and Wireless

Belgacom

## Growth ahead of target

* Company Update

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| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | €30.11 |
| Target price | €32.00 |
| Expected share price return | 6.3% |
| Expected dividend yield | 5.0% |
| **Expected total return** | 11.3% |
| Market Cap | €10,178M |
|  | US$12,684M |

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| Price Performance (RIC: BCOM.BR, BB: BELG BB) |
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* **We reiterate our Neutral rating on Belgacom at ex div target price of €32.0** — We see Belgacom as well placed on self-help and market repair. Mobile service revenues have been improving for some time and we believe that a combination of easing top-line pressures and good cost cutting will lead to EBITDA growth by 2015e – ahead of management’s target (2016e). Additionally, Belgacom could benefit from convergence lead consolidation without participating itself, something we see likely at some point in the Belgian market. That said, the stock has run strongly and trades at a premium valuation of 2015/16e EV/EBITDA of 7.3x/7.4x (sector: 6.8x/6.7x) and EFCF yield of 4.7%/4.7% (sector: 5.5%/6.7%), suggesting a lot of good news is in the price.
* **Easing top-line pressure** — At the 3Q results, Belgacom’s mobile service revenues moved out of the negative territory (flat y/y) mainly due to growth in Enterprise mobile (+4.4% in 3Q from -1.4% in 2Q). We expect mobile service revenue trends to continue to improve as the impact of repricing fades away and the 4G data usage story kicks in. We expect Belgacom to continue to focus on bundling and expect this to pay-off in terms of ARPU upside. Belgacom has a stable fixed business and we forecast beneficial trends to continue with limited impact from Mobistar’s launch into cable.
* **Exposure to Mobistar’s cable launch limited to low-end** — We believe that Mobistar will launch cable on a commercial basis in 1H 2015. We expect to see some risk of market-share losses from Mobistar’s launch into cable particularly in Wallonia, where it can launch offers at a lower price (using Voo’s lower prices on a ‘retail minus’ basis), However, we believe that the subscriber losses will be limited to the low-end, particularly current Scarlet subscribers. Mobistar may also gain some traction from existing Proximus subscribers with a low-appetite for content but have a preference for higher speeds offered by cable.
* **Mixed consequences of potential consolidation** — We do not expect Belgacom to participate in the consolidation in the Belgian market. We see cable consolidation as potentially negative if it led to a strengthening of Voo’s operational capabilities. Cable-mobile consolidation could have mixed consequences – it could increase intensity in quadruple play but would likely ease price pressure in mobile.
* **Belgian government stake is not an overhang** — The Belgian government owns 53.5% of Belgacom and any potential stake sale raises overhang risk, but we believe that the stake will be viewed as a guarantor of decent cash returns.

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| **Belgacom SA (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 6,460.5 | 6,318.0 | 6,077.5 | 5,898.3 | 5,925.2 |
| Net Income (€M) | 711.0 | 629.0 | 637.0 | 528.1 | 546.1 |
| Diluted EPS (€) | 2.24 | 1.91 | 2.00 | 1.66 | 1.71 |
| Diluted EPS (Old) (€) | 2.24 | 1.91 | 2.00 | 1.66 | 1.71 |
| PE (x) | 13.5 | 15.8 | 15.1 | 18.2 | 17.6 |
| EV/EBITDA (x) | 6.7 | 7.3 | 7.5 | 7.5 | 7.4 |
| DPS (€) | 2.49 | 2.18 | 1.50 | 1.50 | 1.50 |
| Net Div Yield (%) | 8.3 | 7.2 | 5.0 | 5.0 | 5.0 |

## Growth ahead of target

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| Figure 40. . Belgacom has lately lost some relative outperformance against the sector (left axis €/share; right axis index: end-2006=100) |  | Figure 41. Belgacom now trades above the telecoms sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 42. Consensus EPS has improved for 2015/16e (p) |  | Figure 43. EBITDA consensus has remained stable for 2014e and slightly improved for 2015/16e (£bn) |
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| Source: DataStream |  | Source: DataStream |

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| Figure 44. Compared to its incumbent and wireless peers in Europe, Belgacom trades between the interquartile and top quartile (particularly on cash-flow metrics) on our 2015 and 2016 estimates.  £/share |
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| Source: Powered by dataCentral |

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| Figure 45. Belgacom forecast  €m except for per share data |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 6,461 | 6,318 | 6,077 | 5,898 | 5,925 | 5,956 | 5,990 | | *growth, yoy* | 0.9% | (2.2%) | (3.8%) | (2.9%) | 0.5% | 0.5% | 0.6% | | Operating costs | (4,659) | (4,627) | (4,427) | (4,239) | (4,247) | (4,257) | (4,268) | | *growth, yoy* | 3.7% | (0.7%) | (4.3%) | (4.2%) | 0.2% | 0.2% | 0.3% | | **EBITDA** | **1,802** | **1,691** | **1,651** | **1,659** | **1,678** | **1,699** | **1,722** | | *growth, yoy* | (5.8%) | (6.2%) | (2.4%) | 0.5% | 1.1% | 1.3% | 1.3% | | *margin* | *27.9%* | *26.8%* | *27.2%* | *28.1%* | *28.3%* | *28.5%* | *28.7%* | |  |  |  |  |  |  |  |  | | EBIT | 1,054 | 909 | 824 | 821 | 845 | 862 | 883 | | **Net income** | **711** | **629** | **637** | **528** | **546** | **558** | **575** | | Basic EPS | 2.24 | 1.91 | 2.00 | 1.66 | 1.71 | 1.75 | 1.81 | | ***Consensus EPS*** | ***2.29*** | ***2.02*** | ***1.89*** | ***1.69*** | ***1.66*** | ***1.64*** | ***1.66*** | | DPS | 2.49 | 2.18 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | | ***Consensus DPS*** | ***2.49*** | ***2.18*** | ***1.52*** | ***1.50*** | ***1.50*** | ***1.32*** | ***1.41*** | |  |  |  |  |  |  |  |  | | Capex | (793) | (858) | (968) | (902) | (903) | (891) | (886) | | of which: spectrum | 0 | 38 | 217 | 0 | 0 | 0 | 0 | | FCF pre min divs | 715 | 462 | 412 | 477 | 491 | 520 | 545 | | **FCF post min divs** | **684** | **424** | **379** | **463** | **476** | **504** | **528** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **2,003** | **2,288** | **2,335** | **2,307** | **2,295** | **2,230** | **2,163** | | Net debt/EBITDA | 1.1x | 1.4x | 1.4x | 1.4x | 1.4x | 1.3x | 1.3x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **4Q14 results** – Belgacom is expected to publish its 4Q14 results on 27 February 2015.
* **Mobistar’s launch of cable** – Mobistar intends to launch cable offers by 4Q14. We believe that it will launch on a test basis with commercial launch in 1H 2015.
* **Outcome of appeal on Walloon Pylon tax** – Belgacom has appealed to court over the Pylon tax on mobile antennas. The outcome of the appeal is expected in the next few months. A decision against Belgacom exposes it to downside risk as Belgacom does not include a provision for this (unlike Mobistar which includes a provision of €24m within adjusted EBITDA).
* **Potential consolidation in the Belgian market** – The timing of an M&A event remains uncertain.

BT Group

## Going All EE

* Company Update

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|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | £3.97 |
| Target price | £4.50 |
| Expected share price return | 13.2% |
| Expected dividend yield | 2.7% |
| **Expected total return** | 16.0% |
| Market Cap | £32,356M |
|  | US$50,865M |

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| Price Performance (RIC: BT.L, BB: BT/A LN) |
|  |

* **Remain Buyers** — We remain buyers of BT which has announced it is in exclusive talks with EE’s owners over an acquisition priced at £12.5bn - roughly 50/50 cash and stock. We see an acquisition of an operator as both a more decisive and plausible route to quad play than BT's current, slow burn, hybrid network approach, but also more constructive for the UK mobile market as a whole. We expect a network-owning BT to be less disruptive to mobile pricing than it would likely be with its current approach.
* **EE transaction details** — £12.5bn (EV) is 8.0x 2014 adjusted EBITDA on our forecasts and 6.5x post synergy which we estimate at 7.5% of EE’s opex. There may be a further equity capital raise to fund the cash component, our scenarios test nil to £3bn of extra equity capital raised. BT has so far not chosen to reiterate its dividend policy but we note that it is well covered and even under the scenario of a further capital raise worth £3bn new shares will still only be 22% of the total post transaction. Our scenarios come out around 5.0-7.5% dilutive to earnings post synergy but we see the deal as having broad strategic merits longer term for BT and have argued that EE’s stronger spectrum allocation and larger customer base make it the more attractive of the two potential targets, vs O2 UK.
* **Something of a dilemma over EPL rights** — The next English Premier League broadcasting rights auction has begun and according to Reuters (12 Dec) is likely to conclude in February. At 168 matches included there are 14 more than last time but they will again be divided into seven packages - five of 28 matches and two of 14. No single buyer can exceed 126 games (four of the packs of 28 and one of 14). We see two constraints on BT. First is Ofcom’s margin squeeze test, limiting the cross-subsidy BT can deploy between broadband and TV. Second is what we see as the limited strategic benefit of engaging in inflationary bidding only to sell rights back to consumers in a standard, pay-for-channel package. We forecast 20% rights inflation for BT to renew the equivalent of its existing packs.
* **Pension scheme risks may also be overdone** — The latest triennial valuation will probably be made public before the end of March 2015. Movements in benchmark bond yields and market-implied inflation expectations point to a deterioration of around £1.55bn (gross) in the deficit, while BT’s estimate for the median deficit calculation has moved adversely by £2bn. We see the improvement in BT’s pension covenant as sufficient to limit deterioration in the funding deficit to only £1bn, and revise our forecasts accordingly.

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| **BT Group PLC (GBP)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Mar** | **2013A** | **2014A** | **2015E** | **2016E** | **2017E** |
| Sales (£M) | 18,339.0 | 18,287.0 | 17,976.6 | 18,190.4 | 18,496.3 |
| Profit Before Tax (£M) | 2,656.0 | 2,827.0 | 3,121.0 | 3,236.8 | 3,409.6 |
| Diluted EPS (p) | 25.1 | 26.9 | 29.6 | 31.1 | 32.9 |
| Diluted EPS (Old) (p) | 25.1 | 26.9 | 29.6 | 31.1 | 32.9 |
| PE (x) | 15.8 | 14.8 | 13.4 | 12.8 | 12.1 |
| EV/EBITDA (x) | 6.6 | 6.4 | 6.2 | 6.0 | 5.7 |
| DPS (p) | 9.5 | 10.9 | 12.5 | 14.3 | 15.9 |
| Net Div Yield (%) | 2.4 | 2.7 | 3.1 | 3.6 | 4.0 |

## Going All EE

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| Figure 46. BT's relative outperformance has tailed off since summer 2013, (left axis p/share; right axis index: end-2006=100) |  | Figure 47. BT trades in line with the sector on PE (1 year forward) |
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| Source: DataStream |  | Source: DataStream |
| Figure 48. Consensus EPS improvements have slowed (p) |  | Figure 49. EBITDA consensus continuing to rise (£bn) |
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| Source: DataStream |  | Source: DataStream |

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| Figure 50. Compared to its incumbent and wireless peers in Europe, BT trades between the lower quartile and the median on our 2015 and 2016 estimates.  £/share |
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| Source: Powered by dataCentral |

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| Figure 51. BT Forecasts  £m except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Mar** | **2012** | **2013** | **2014** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 19,397 | 18,339 | 18,287 | 17,977 | 18,190 | 18,496 | 18,787 | | *growth, yoy* | (3.4%) | (5.5%) | (0.3%) | (1.7%) | 1.2% | 1.7% | 1.6% | | Operating costs | (13,363) | (12,196) | (12,171) | (11,729) | (11,890) | (12,074) | (12,214) | | *growth, yoy* | (5.8%) | (8.7%) | (0.2%) | (3.6%) | 1.4% | 1.5% | 1.2% | | **EBITDA** | **6,034** | **6,143** | **6,116** | **6,248** | **6,300** | **6,423** | **6,573** | | *growth, yoy* | 2.5% | 1.8% | (0.4%) | 2.2% | 0.8% | 1.9% | 2.3% | | *margin* | *31.1%* | *33.5%* | *33.4%* | *34.8%* | *34.6%* | *34.7%* | *35.0%* | | ***Consensus EBITDA*** | ***6,064*** | ***6,181*** | ***6,116*** | ***6,214*** | ***6,288*** | ***6,433*** | ***6,563*** | |  |  |  |  |  |  |  |  | | EBIT | 3,062 | 3,300 | 3,421 | 3,700 | 3,759 | 3,885 | 4,043 | | **Net income** | **1,814** | **2,059** | **2,214** | **2,466** | **2,589** | **2,728** | **2,865** | | Basic EPS | 23.4 | 26.3 | 28.2 | 30.6 | 31.8 | 33.6 | 35.2 | | ***Consensus EPS*** | ***23.7*** | ***25.4*** | ***26.9*** | ***29.3*** | ***31.1*** | ***33.7*** | ***36.5*** | | DPS | 8.3 | 9.5 | 10.9 | 12.5 | 14.3 | 15.9 | 17.6 | | ***Consensus DPS*** | ***8.3*** | ***9.5*** | ***10.9*** | ***12.9*** | ***14.7*** | ***16.5*** | ***19.5*** | |  |  |  |  |  |  |  |  | | Capex | (2,560) | (2,640) | (2,346) | (2,311) | (2,304) | (2,307) | (2,187) | | of which: spectrum | 0 | (202) | 0 | 0 | 0 | 0 | 0 | | FCF (co definition\*) | 2,306 | 2,299 | 2,391 | 2,786 | 3,075 | 3,383 | 3,428 | | **FCF** | **317** | **1,966** | **1,843** | **2,037** | **2,437** | **2,726** | **3,048** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **10,904** | **12,215** | **12,590** | **7,528** | **6,294** | **4,547** | **2,761** | | Net debt/EBITDA | 1.8x | 2.0x | 2.1x | 1.2x | 1.0x | 0.7x | 0.4x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **EE due diligence** - BT anticipates notifying the transaction to the Competition & Markets Authority in the UK should it proceed. Ordinarily a Phase 1 review would take 40 days and as the two operators have relatively little overlap, we see a good chance of clearance at that stage, probably subject to BT’s spectrum ranges at 2600MHz being sold.
* **English Premier League broadcast rights auction** is now underway and is expected to complete by around February 2015. Consensus is for significant rights inflation. BT’s strategy so far has been to use sport to promote its core voice and broadband services and the upgrade to fibre, although it has said that it will introduce a paid-for element with the start of its first UEFA season (2015/16). BT Sport has been successful with BT seeing less need for aggressive promotional prices to retain customers, and so accelerating consumer revenue growth and taking a larger share of broadband net adds. The incremental benefit from further expanding its content budget is not clear to us.
* **Triennial pension scheme review** is being priced as at the end of June 2014. The results are required to be published within 15 months but BT aims to do so by the end of the financial year (March) and may in our view release them around the time of its fiscal 3Q results in late Jan or early Feb.

## UK spectrum considerations

We think the better spectrum allocation for 4.5G influenced BT’s choice of EE vs O2 UK. In Figure 52 we show the theoretical downlink spectrum of the UK operators (assuming all unpaired is devoted to downlink). The sub 1GHz spectrum is still desirable for its good propagation qualities and still commands the highest prices per MHz pop (partly due to relative scarcity, ie limited quantity of MHz). In the world of 4.5G (LTE Advanced), however, there is merit in wide bandwidths and here EE’s 2x45MHz range at 1800MHz and 2x35MHz range at 2600MHz differentiate it. EE trialed LTE Advanced at 300Mbps in London in November 2013 and intends to launch in 2015. This speed was achieved by using carrier aggregation to bond 20MHz at 1800 with another 20MHz at 2600.

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| Figure 52. UK MNO spectrum allocations  MHz (European notation – paired is one half, total is all theoretical downlink) |  | Figure 53. Same spectrum allocations by spectrum range  MHz (European notation – paired is one half of pair) |
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| Source: Ofcom, Company Reports |  | Source: Ofcom, Company Reports |

## Valuation

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| Figure 54. BT discounted cash flow valuation comes to £4.51  £m except per share items in UKp, year to March |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Free cash flow** | **2014** | | **2015E** | | **2016E** | | **2017E** | | **2018E** | | **2019E** | **2020E** | | |  |  | |  | |  | |  | |  | |  |  | | | EBITDA | 6,116 | | 6,248 | | 6,300 | | 6,423 | | 6,573 | | 6,691 | 6,751 | | | Movements in working cap | (402) | | (219) | | (29) | | 123 | | 6 | | 40 | 65 | | | Restructuring/other | (246) | | (174) | | (4) | | 13 | | 10 | | (2) | 16 | | | Capex inc spectrum | (2,346) | | (2,311) | | (2,304) | | (2,307) | | (2,187) | | (2,206) | (2,224) | | | Tax paid | (424) | | (523) | | (635) | | (673) | | (708) | | (736) | (753) | | | Interest paid | (608) | | (579) | | (493) | | (447) | | (432) | | (427) | (422) | | | Divs received | 1 | | 0 | | 0 | | 0 | | 0 | | 0 | 0 | | | Divs paid to minorities | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | 0 | | | **FCF pre net pension top ups** | **2,091** | | **2,442** | | **2,835** | | **3,131** | | **3,263** | | **3,361** | **3,432** | | |  |  | |  | |  | |  | |  | |  |  | | | Interest/divs added back | 607 | | 579 | | 493 | | 447 | | 432 | | 427 | 422 | | | Tax shield on interest | (122) | | (116) | | (99) | | (89) | | (86) | | (85) | (84) | | | **Unlevered FCF** | **2,576** | | **2,905** | | **3,229** | | **3,488** | | **3,608** | | **3,702** | **3,770** | | |  |  |  | |  | |  | |  | |  | | |  | | Value of yrs 1-7 cash flows | 20,560 |  | |  | | Market gearing (D/E) | | | |  | | | 33.0% | | Fade period value | 18,251 |  | |  | | Tax rate | |  | |  | | | 20.0% | | Terminal value | 5,428 |  | |  | | Risk free rate | | | |  | | | 1.9% | | Other | 0 |  | |  | | Bond spread | | | |  | | | 2.5% | | **Enterprise value** | **44,239** |  | |  | | Equity market premium | | | |  | | | 6.0% | | Post BS events | 309 |  | |  | | Asset beta | | | |  | | | 1.05 | | Minority equity value | 0 |  | |  | | **WACC** | |  | |  | | | **8.3%** | | Associate equity value | 0 |  | |  | |  | |  | |  | | |  | | Net debt @ end 2015E | (6,176) |  | |  | |  | |  | |  | | |  | | Net pension deficit | (1,483) |  | |  | | Capex growth during fade period | | | | | | | 4.0% | | **Equity value** | **36,889** |  | |  | | TY ROCE spread over WACC | | | | | | | 4.5% | |  |  |  | |  | |  | |  | |  | | |  | | Number of shares (mn) | 8,180 |  | |  | | Perpetuity growth (post yr 25) | | | | | | | 1.5% | | **Implied share price (£)** | **4.51** |  | |  | | **Implied perp growth post year 4** | | | | | | | **(1.0%)** | |
| Source: Company Reports and Citi Research Estimates |

Deutsche Telekom

## Plug into the Steckerleiste and go

* Company Update

|  |
| --- |
| Simon Weeden |
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|  |

|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | €12.71 |
| Target price | €14.00 |
| *from €13.50* |  |
| Expected share price return | 10.2% |
| Expected dividend yield | 3.9% |
| **Expected total return** | 14.1% |
| Market Cap | €57,624M |
|  | US$71,812M |

|  |
| --- |
| Price Performance (RIC: DTEGn.DE, BB: DTE GR) |
|  |

* **Path to long-term growth in cash flow** — We think Deutsche Telekom is on a path to long-term growth in FCF, with payback due over time from its steady investment in network and business restructuring and an easier regulatory environment in Europe. The company has the potential to exit T Mobile USA at an attractive valuation, and a late decade retirement wave coinciding with completion of programmes that drive significant labour efficiency. We retain our Buy rating and raise our DCF-based target price to €14.0 (€13.5) due to rolling forward the pricing date and a slightly lower WACC due to the 10-year bund.
* **Key investment positives** — DT is among the leaders in Europe of the move to a new operating model for incumbent telcos integrating fixed and mobile operations, migrating to all-IP for greater network automation and flexibility, upgrading B2B capability in cloud, big data and machine to machine. In our view, those incumbents investing and following this path can retain the advantages of scale while shedding the disadvantages of legacy leading to improved returns. We also see DT’s exposure to the lately strengthening US dollar as an advantage although note that the high cost of spectrum and increase in competitive intensity in the US present risks.
* **Capital Markets Event catalyst, Feb 2015** — Two years ago the dominant CMD themes were investment in Germany (fast broadband, All-IP) and the USA (network, commercial spend). This time we expect more focus on the payback from the company’s extensive investments, long-term restructuring of the cost base, and updating of its competitive position especially in B2B.
* **Balance of risk in German mobile** — In German mobile, which is 24% of DT's EV on our SOTP, DT has been performing relatively well but this unit is not central to our positive call on DT from here which is driven by European fixed line (mainly Germany) and the US. We expect only a modest improvement in German mobile market growth in 2014 driven by three factors: (1) customers upgrading to larger 4G data bundles, (2) Telefónica withdrawing the more aggressive E-Plus offers and (3) the delay in Drillisch coming to market with a 4G offer which we expect to be around May (although it could be any time in 1H15). These we expect to be largely countered by the MVNOs cutting prices ahead of Drillisch's launch, as has already started to happen, and the potential for Drillisch to start quite aggressively once it has its newly reinstated retail brand is in place. We see constructive behaviour from the enlarged TefD as key for more positive market development. We also believe the competitive substitution of Drillisch for E‑Plus to be positive for operators over the longer term once Drillisch’s market share grab slows and they see less competition for spectrum.

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| **Deutsche Telekom AG (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 58,183.0 | 60,193.0 | 62,663.0 | 65,568.3 | 66,725.0 |
| Net Income (€M) | 2,897.0 | 3,355.0 | 3,230.6 | 4,663.2 | 5,073.2 |
| Diluted EPS (€) | 0.67 | 0.77 | 0.72 | 1.02 | 1.11 |
| Diluted EPS (Old) (€) | 0.67 | 0.77 | 0.72 | 1.02 | 1.11 |
| PE (x) | 18.9 | 16.6 | 17.6 | 12.4 | 11.5 |
| EV/EBITDA (x) | 6.1 | 6.4 | 6.5 | 5.8 | 5.5 |
| DPS (€) | 0.70 | 0.50 | 0.50 | 0.50 | 0.50 |
| Net Div Yield (%) | 5.5 | 3.9 | 3.9 | 3.9 | 3.9 |

**Plug into the Steckerleiste and go**

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| --- | --- | --- | --- |
| Figure 55. DT has outperformed the sector since mid-2012 (left axis €/share; right axis index: end-2006=100) | |  | **Figure 56. DT trades above the sector average PE (1 year forward)** |
|  | |  |  |
| Source: DataStream | |  | Source: DataStream |
| Figure 57. Consensus EPS recently fairly stable (€) | |  | Figure 58. EBITDA consensus has lately stabilised after a period of decline (€bn) |
|  | |  |  |
| Source: DataStream | |  | Source: DataStream |
| Figure 59. Reverse SOP for DT, €/share implied from listed affiliates | | |
| CIRACHART | | |
| Source: DataStream, Company data, Citi Research estimates | | |

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| Figure 60. Compared to its incumbent and wireless peers in Europe, DT trades between the lower quartile and the median on our 2015 and 2016 estimates  €/share |
|  |
| Source: Powered by dataCentral |

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| --- |
| Figure 61. Deutsche Telekom Forecasts  €m except for per share data |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 58,183 | 60,193 | 62,663 | 65,568 | 66,725 | 67,913 | 68,981 | | *growth, yoy* | (0.9%) | 3.5% | 4.1% | 4.6% | 1.8% | 1.8% | 1.6% | | Operating costs | (40,210) | (42,769) | (45,374) | (46,411) | (47,082) | (47,556) | (47,914) | | *growth, yoy* | 0.4% | 6.4% | 6.1% | 2.3% | 1.4% | 1.0% | 0.8% | | **EBITDA** | **17,973** | **17,424** | **17,289** | **19,157** | **19,643** | **20,357** | **21,068** | | *growth, yoy* | (3.8%) | (3.1%) | (0.8%) | 10.8% | 2.5% | 3.6% | 3.5% | | *margin* | *30.9%* | *28.9%* | *27.6%* | *29.2%* | *29.4%* | *30.0%* | *30.5%* | | ***Consensus EBITDA*** |  |  | ***17,560*** | ***18,054*** | ***18,687*** | ***19,143*** | ***19,057*** | |  |  |  |  |  |  |  |  | | EBIT | 6,979 | 7,251 | 6,771 | 8,688 | 8,928 | 9,522 | 10,288 | | **Net income** | **2,897** | **3,355** | **3,231** | **4,663** | **5,073** | **5,313** | **5,692** | | EPS pre SIs | 0.59 | 0.63 | 0.59 | 0.89 | 0.98 | 1.03 | 1.11 | | ***Consensus EPS*** | ***0.59*** | ***0.63*** | ***0.62*** | ***0.66*** | ***0.75*** | ***0.86*** | ***0.88*** | | DPS | 0.70 | 0.50 | 0.50 | 0.50 | 0.50 | 0.60 | 0.70 | | ***Consensus DPS*** | ***0.70*** | ***0.50*** | ***0.50*** | ***0.52*** | ***0.54*** | ***0.57*** | ***0.40*** | |  |  |  |  |  |  |  |  | | Capex | (7,886) | (10,815) | (10,788) | (10,346) | (9,559) | (9,227) | (8,501) | | of which: spectrum | (78) | (2,207) | (1,750) | (500) | 0 | 0 | 0 | | FCF pre min divs | 6,161 | 2,399 | 2,169 | 3,669 | 5,606 | 6,188 | 7,689 | | **FCF post min divs** | **5,786** | **2,127** | **1,951** | **3,393** | **5,305** | **5,865** | **7,346** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **43,742** | **45,885** | **43,803** | **41,877** | **38,875** | **35,313** | **30,731** | | Net debt/EBITDA | 2.4x | 2.6x | 2.5x | 2.2x | 2.0x | 1.7x | 1.5x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **FCC’s Auction 97 began on 13 November 2014** and is still underway, surpassing $43.4bn at round 84. For the 65MHz (US notation) of AWS3 spectrum (1700/2100 MHz) this represents an average valuation of $2.14 per MHz per POP (including non-paired uplink spectrum and using FCC-provided population data). The total valuation for the paired spectrum is almost $41.2 billion, representing an average of $2.63 per MHz per POP. TMUS has raised debt which could be put towards its bidding.
* **Capital Markets Event, Feb 2015.** We expect the focus to shift from all-out investment to a greater balance between investment and returns. We take it from the delay from the original date in December that the company has something in mind that needs board approval. If that is a new restructuring programme, as we expect, that may make a return to a progressive dividend unlikely at this stage although we see plenty of scope for dividend growth longer term.
* **Disposal of EE** – BT is in exclusive negotiations with DT and Orange about an acquisition of EE for £12.5bn roughly 50/50 in stock and cash. DT would receive £1.55bn and 12% of the post deal BT. BT anticipates notifying the transaction to the Competition & Markets Authority in the UK. Ordinarily a Phase 1 review would take 40 days and as the two operators have relatively little overlap, we see a good chance of clearance at that stage, probably subject to BT’s spectrum ranges at 2600MHz being sold.
* **Competition reviews** of two major US transactions (AT&T’s offer for DTV being one) are likely to conclude in 1H15. We expect DT to be reluctant to commit to a strategic move with respect to T-Mobile USA before seeing the outcomes of both Auction 97 and the competition reviews.
* **US 600MHz incentive auction 2015/2016.** 
  + In addition to the pending auctions, T‑Mobile has been acquiring small portfolios of 700 MHz licenses. Lately it filed with the FCC to acquire the licenses from Triad 700 LLC covering 2.43m pops. According to FierceWireless, (29 Sep, citing AllNet Labs) a series of small 700MHz transactions so far sum to around 15.88 million pops (including Triad), adding to the A Block spectrum purchased for $2.4bn from Verizon Wireless covering 150m pops.
* **Germany 700MHz auction, Feb 2015,** and renewal of some 900MHz/1800MHz.

## Valuation

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| Figure 62. Discounted cash flow comes to €14 per share  €m except per share items in €, year to Dec |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Free cash flow** | **2012** | | **2013** | | **2014E** | | **2015E** | | **2016E** | | **2017E** | **2018E** | | |  |  | |  | |  | |  | |  | |  |  | | | EBITDA | 17,973 | | 17,424 | | 17,289 | | 19,157 | | 19,643 | | 20,357 | 21,068 | | | Movements in working cap | (1,104) | | (570) | | (81) | | (200) | | (203) | | (205) | (208) | | | Restructuring/other | (433) | | (1,190) | | (1,600) | | (2,000) | | (1,250) | | (1,000) | (750) | | | Capex inc spectrum | (7,886) | | (10,815) | | (10,788) | | (10,346) | | (9,559) | | (9,227) | (8,501) | | | Tax paid | (694) | | (648) | | (566) | | (1,001) | | (1,256) | | (2,158) | (2,549) | | | Interest paid | (2,185) | | (2,075) | | (2,467) | | (2,388) | | (2,283) | | (2,169) | (2,049) | | | Divs received | 490 | | 273 | | 381 | | 448 | | 513 | | 590 | 678 | | | Divs paid to minorities | (375) | | (272) | | (218) | | (277) | | (301) | | (322) | (342) | | | **Free cash flow** | **5,786** | | **2,127** | | **1,951** | | **3,393** | | **5,305** | | **5,865** | **7,346** | | |  |  | |  | |  | |  | |  | |  |  | | | Interest/divs added back | 2,070 | | 2,074 | | 2,305 | | 2,217 | | 2,071 | | 1,902 | 1,713 | | | Tax shield on interest | (737) | | (700) | | (832) | | (805) | | (770) | | (731) | (691) | | | **Unlevered FCF** | **7,119** | | **3,501** | | **3,423** | | **4,804** | | **6,606** | | **7,035** | **8,368** | | |  |  |  | |  | |  | |  | |  | | |  | | Value of yrs 1-8 cash flows | 45,439 |  | |  | | Market gearing (D/E) | | | |  | | | 33.0% | | Fade period value | 49,447 |  | |  | | Tax rate | |  | |  | | | 33.7% | | Terminal value | 20,600 |  | |  | | Risk free rate | | | |  | | | 1.0% | | Other | 0 |  | |  | | Bond spread | | | |  | | | 2.5% | | **Enterprise value** | **115,486** |  | |  | | Equity market premium | | | |  | | | 6.0% | | Post BS events | 0 |  | |  | | Asset beta | | | |  | | | 1.10 | | Minority equity value | (14,354) |  | |  | | **WACC** | |  | |  | | | **7.4%** | | Associate equity value | 5,172 |  | |  | |  | |  | |  | | |  | | Net debt @ end 2015E | (41,877) |  | |  | | Capex growth during fade period | | | | | | | 3.5% | | **Equity value** | **64,427** |  | |  | | TY ROCE spread over WACC | | | | | | | 3.0% | |  |  |  | |  | |  | |  | |  | | |  | | Number of shares (mn) | 4,607 |  | |  | | Perpetuity growth (post yr 25) | | | | | | | 1.5% | | **Implied share price (€)** | **14.0** |  | |  | | **Implied perp growth post year 4** | | | | | | | **(0.3%)** | |
| Source: Company Reports and Citi Research Estimates |

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| Figure 63. DT sum of the parts comes to €14 per share, €m, year to Dec |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Division** |  | **Stake** | **Enterprise** | **Net (debt)** |  | **Valuation** |  | **DT equity** | **% of DT** | **Value/** |  | **EV/** | **EV/** | **EV/** | |  |  |  | **value** | **2015** |  | **Method** |  |  | **EV** | **share** |  | **Sales** | **EBITDA** | **OpFCF** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **Germany** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Fixed |  | 100.0% | 37,130 |  |  | 7.0x 2015 EV/EBITDA |  | 37,130 | 43.0% | 8.2 |  | 2.6x | 7.0x | 19.8x | | Mobile |  | 100.0% | 24,266 |  |  | 7.0x 2015 EV/EBITDA |  | 24,266 | 28.1% | 5.3 |  | 3.2x | 7.0x | 9.8x | | **Total** |  |  | **61,395** |  |  |  |  | **61,395** | **71.1%** | **13.5** |  | **2.8x** | **7.0x** | **14.1x** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **GHS** |  | 100.0% | (13,422) |  |  | German avg EV/OpFCF |  | (13,422) | (15.6%) | (2.9) |  |  | 22.3x | 14.1x | | **Germany + GHS** |  | **100.0%** | **47,973** |  |  |  |  | **47,973** | **55.6%** | **10.5** |  | **2.2x** | **5.9x** | **14.1x** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **T-Systems** |  | 100.0% | 5,354 |  |  | 6.0x 2015 EV/EBITDA |  | 5,354 | 6.2% | 1.2 |  | 0.6x | 6.0x | (156.6x) | | **T-Mobile USA** |  | 66.8% | 41,929 | (20,179) |  | Target price @ $33 |  | 14,527 | 16.8% | 3.2 |  | 1.6x | 7.3x | 20.3x | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **Europe** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Austria |  | 100.0% | 1,105 |  |  | 5.5x 2015 EV/EBITDA |  | 1,105 | 1.3% | 0.2 |  | 1.3x | 5.5x | 10.2x | | Czech Republic |  | 60.8% | 1,971 |  |  | 5.5x 2015 EV/EBITDA |  | 1,198 | 1.4% | 0.3 |  | 2.1x | 5.5x | 8.0x | | Netherlands |  | 100.0% | 2,381 |  |  | 4.5x 2015 EV/EBITDA |  | 2,381 | 2.8% | 0.5 |  | 1.6x | 4.5x | 6.3x | | Poland |  | 100.0% | 3,207 |  |  | 5.5x 2015 EV/EBITDA |  | 3,207 | 3.7% | 0.7 |  | 2.2x | 5.5x | 8.2x | | Magyar Telekom |  | 59.3% | 2,117 | (953) |  | Market value |  | 690 | 0.8% | 0.2 |  | 1.4x | 4.7x | 7.6x | | OTE |  | 40.0% | 8,165 | (812) |  | Market value |  | 2,941 | 3.4% | 0.6 |  | 2.1x | 5.5x | 9.0x | | **Total** |  |  | **22,404** | **(1,766)** |  |  |  | **13,286** | **15.4%** | **2.9** |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | United Kingdom |  | 50.0% | 12,418 | (2,073) |  | DDM-10% |  | 5,172 | 6.0% | 1.1 |  | 1.5x | 6.7x | 11.9x | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **Total EV** |  |  | **130,078** | **(24,017)** |  |  |  | **86,312** | **100.0%** | **19.0** |  | **2.0x** | **6.8x** | **14.4x** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Net debt not included above |  | 100.0% |  | (13,140) |  |  |  | (13,140) | (15.2%) | (2.89) |  |  |  |  | | Unfunded pensions, net of tax |  | 100.0% |  | (6,792) |  |  |  | (6,792) | (7.9%) | (1.49) |  |  |  |  | | Cash restructuring post 2015 |  | 100.0% |  | (3,260) |  |  |  | (3,260) | (3.8%) | (0.72) |  |  |  |  | | Tax shield |  | 100.0% |  | 480 |  |  |  | 480 | 0.6% | 0.11 |  |  |  |  | | **Equity value** |  |  |  | **Shares:** |  | **4,551m** |  | **63,599** | **73.7%** | **14.0** |  |  |  |  | |
| Source: dataCentral, Citi Research |

Elisa

## Solid outlook for Finnish mobile in 2015

* Company Update

|  |
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|  |

|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | €23.30 |
| Target price | €28.00 |
| *from €26.00* |  |
| Expected share price return | 20.2% |
| Expected dividend yield | 5.6% |
| **Expected total return** | 25.8% |
| Market Cap | €3,899M |
|  | US$4,859M |

|  |
| --- |
| Price Performance (RIC: ELI1V.HE, BB: ELI1V FH) |
|  |

* **Upside to Mobile ARPU, strong demand for data** — We believe the Finnish mobile market remains resilient despite the pressure from macro and MTR cuts on service revenues. The latter will impact fully from 4Q and could weigh somewhat on 2015 headline estimates. However, we see the underlying environment as healthy with pricing continuing to improve, while KPIs point towards strong demand for data and migration to 4G. We believe these structural factors are more important than the cyclical elements and see the Finnish mobile market as one with potentially the highest upside in Europe.
* **Upside to consensus in 2015** — Not only do we see solid outlook for Finnish mobile, but we see cost-cutting potential offsetting the weakness in fixed voice and the business segment. We forecast flat revenue growth for 2015, in line with consensus (though that is not necessarily organic as any M&A is included in this comparison), however lie above on 2016 revenue growth at +1.2% (cons at +0.3%). In terms of EBITDA margin, Elisa targets to deliver >36% long term. Consensus (collected post 3Q numbers) is only factoring in a margin of 34% for 2015/16, while we estimate 35.5% for both years; EBITDA margin which we believe is achievable as the interconnection cuts should help the margins and Elisa is yet to deliver all the synergy benefits for PPO, with another €5m coming through next year. We also believe Elisa has the flexibility for value accretive M&A though the acquisition of local fibre networks, given the significant synergies achieved with the PPO acquisition.
* **Reiterate Buy, price target up to €28** — We believe Elisa’s valuation should be considered in light of the fact that it commands the best incumbent mobile network in Europe (enough spare capacity at 6% utilization) with one of the lowest capex to sales ratios (<12%). Low funding costs and the 2nd lowest corporate tax rate in Europe mean that Elisa trades at significant discounts to the sector on P/E, FCF yield, dividend yield, EV/OpFCF. With earnings and FCF growth coming through, we expect Elisa will continue to support a compelling dividend of €1.3/share, with upside risk in the medium term. We increase our price target to reflect the general re-rating in the value of telco assets in Europe and reduce our WACC from 7.1% to 7.0% and increase our terminal growth rate from 1% to 1.2%.

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| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Elisa Oyj (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 1,553.4 | 1,547.4 | 1,527.9 | 1,529.0 | 1,547.3 |
| Net Income (€M) | 208.3 | 196.2 | 225.2 | 240.5 | 250.6 |
| Diluted EPS (€) | 1.33 | 1.25 | 1.42 | 1.50 | 1.56 |
| Diluted EPS (Old) (€) | 1.33 | 1.25 | 1.42 | 1.50 | 1.56 |
| PE (x) | 17.5 | 18.7 | 16.4 | 15.5 | 14.9 |
| EV/EBITDA (x) | 9.3 | 9.4 | 9.2 | 8.8 | 8.6 |
| DPS (€) | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| Net Div Yield (%) | 5.6 | 5.6 | 5.6 | 5.6 | 5.6 |

## Solid outlook for Finnish mobile

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| Figure 64. Elisa’s has gradually outperformed the sector consistently (left axis p/share; right axis index) |  | Figure 65. Elisa trades in line with the sector on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 66. Consensus EPS improvements continues (€) |  | Figure 67. EBITDA consensus continuing to rise (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 68. Compared to its incumbent and wireless peers in Europe, Elisa trades at a discount using our 2015 and 2016 estimates.  €/share |
|  |
| Source: Powered by dataCentral |

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| --- |
| Figure 69. Elisa forecasts  €m except for per share data |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 1,553 | 1,547 | 1,528 | 1,529 | 1,547 | 1,560 | 1,571 | | *growth, yoy* | 1.5% | (0.4%) | (1.3%) | 0.1% | 1.2% | 0.8% | 0.7% | | Operating costs | (1,052) | (1,057) | (1,006) | (988) | (997) | (1,006) | (1,012) | | *growth, yoy* | 2.8% | 0.4% | (4.8%) | (1.7%) | 0.9% | 0.8% | 0.7% | | **EBITDA** | **501** | **491** | **522** | **541** | **550** | **555** | **558** | | *growth, yoy* | (1.0%) | (2.1%) | 6.5% | 3.5% | 1.7% | 0.9% | 0.7% | | *margin* | *32.3%* | *31.7%* | *34.2%* | *35.4%* | *35.5%* | *35.5%* | *35.6%* | |  |  |  |  |  |  |  |  | | EBIT | 299 | 281 | 306 | 326 | 336 | 342 | 347 | | **Net income** | **208** | **196** | **225** | **240** | **251** | **256** | **261** | | Basic EPS | 1.33 | 1.25 | 1.42 | 1.50 | 1.56 | 1.60 | 1.63 | | ***Consensus EPS*** | ***1.35*** | ***1.25*** | ***1.42*** | ***1.45*** | ***1.46*** | ***1.47*** | ***1.60*** | | DPS | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.55 | | ***Consensus DPS*** | ***1.30*** | ***1.30*** | ***1.31*** | ***1.33*** | ***1.34*** | ***1.37*** |  | |  |  |  |  |  |  |  |  | | Capex | (189) | (213) | (193) | (193) | (196) | (196) | (197) | | of which: spectrum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 154 | 176 | 234 | 262 | 268 | 272 | 275 | | **FCF post min divs** | **154** | **176** | **234** | **262** | **268** | **272** | **275** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **839** | **971** | **938** | **882** | **823** | **759** | **693** | | Net debt/EBITDA | 1.7x | 2.0x | 1.8x | 1.6x | 1.5x | 1.4x | 1.2x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* Decisions from the European Commission regarding reduced roaming regulation. Finland's Minister of Education and Communications, Krista Kiuru, has stated that EU roaming price cuts would hit Finnish operators and users, urging the Commission to revise the proposal.
* Upcoming news on Russia’s countermeasures to western sanctions, reports already warning that this could significantly affect the Finnish economy.
* Government to announce new broadband targets in 2015. FICORA together with the Finnish government will potentially set new targets for the Finnish broadband market as the previous plan expires in 2015.

KPN

## Fundamentals mainly priced in; remain Neutral

* Company Update

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| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | €2.49 |
| Target price | €2.75 |
| *from €2.80* |  |
| Expected share price return | 10.5% |
| Expected dividend yield | 2.8% |
| **Expected total return** | 13.3% |
| Market Cap | €10,629M |
|  | US$13,245M |

|  |
| --- |
| Price Performance (RIC: KPN.AS, BB: KPN NA) |
|  |

* **Consumer Residential expected to be stable in 2015** — KPN continues to reap the benefits from its commercial residential strategy and we expect an ongoing improvement in PSTN losses and better IPTV net adds next year. Price pressure has eased during the year (price hikes in July from KPN and in March from Ziggo) and with investments being made in fibre and xDSL, broadband speeds should improve significantly next year. However, we remain concerned about revitalised competition from cable (>90% coverage) with Ziggo/UPC offering better download speeds at discounted pricing. We forecast a flat 2015 revenue growth in Residential; with consensus looking ambitious at +1.2%.
* **Remain cautious on mobile competition** — We see KPN as well positioned in mobile, offering the best 4G network and offering multi brand tariffs at competitive prices. In 3Q, KPN pointed to rising mobile data usage and improving data monetization as key drivers (with less than 15% 4G penetration currently). However, its good positioning and exposure to upside from 4G is not enough to overcome the competitive pressure from new mobile competitors entering the market. Tele2 is expected to launch early next year and UPC/Ziggo may gain traction post their merger. Accordingly our mobile service revenue forecasts show a -9.9% yoy decline in Consumer Wireless in 2015, with company consensus a bit more bullish at -7.1%.
* **We see downside to FCF consensus numbers in 2015/16** — Our FCF forecasts are estimated to more than double by year end 2016 with declining capex post 2015 and interest costs decreasing almost €100m in 2015 and c. €60m in 2016. With cash taxes minimal until 2021, we forecast FCF of €613m in 2016, corresponding to a FCF yield of 5.8%. However the recovery in FCF looks to be largely priced in already and we believe the market has not given sufficient weight to the potential damage that could be caused by intensifying mobile competition. We see downside to consensus for FCF at €671m for 2015 and of €759m in 2016. Furthermore, KPN’s announcement of the upfront one off cash cost of €225m in 4Q leaves no FCF for FY14. With KPN showing poor cash conversion, we see scope for FCF downgrades.
* **Valuation unexciting** — KPN trades at a slight discount to the sector on most metrics, at a 6.7x and 6.8x EV/EBITDA in 2015 and 2016 (versus the sector at 6.9x) and a 4.3% FCF yield in 2015, ramping up to 6.7% in 2016 (sector at 5.2%). Nevertheless, we remain cautious on mobile competition over the next two years with Tele2 launching 4G and intensifying convergent competition in the case of a Ziggo/Vodafone entity. We reiterate our Neutral stance with a new PT of €2.75, corresponding to 10.5% upside.

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|  |  |  |  |  |  |
| **KPN NV (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 9,458.0 | 8,472.0 | 7,913.6 | 7,623.9 | 7,504.0 |
| Net Income (€M) | 312.0 | 441.4 | 48.1 | 152.7 | 229.5 |
| Diluted EPS (€) | 0.22 | 0.12 | 0.01 | 0.04 | 0.05 |
| Diluted EPS (Old) (€) | 0.49 | 0.08 | 0.03 | 0.04 | 0.05 |
| PE (x) | 11.3 | 19.9 | 221.1 | 69.6 | 46.3 |
| EV/EBITDA (x) | 7.2 | 8.0 | 5.8 | 5.1 | 5.1 |
| DPS (€) | 0.07 | 0.00 | 0.07 | 0.08 | 0.08 |
| Net Div Yield (%) | 2.8 | 0.0 | 2.8 | 3.0 | 3.2 |

## Fundamentals mainly priced in

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| Figure 70. KPN has stabilised relative to the sector since the announcement of the sale of E-Plus in late 2013. (left axis/share; right axis index; end-06=100) |  | Figure 71. KPN now trades at a premium to the sector on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 72. Consensus EPS collapsed at the beginning of 2012 but may now have stabilised (€) |  | Figure 73. EBITDA consensus has been falling reflecting the proposed sale of E-Plus (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 74. Compared to its incumbent and wireless peers in Europe, KPN trades at a discount using our 2015 and 2016 estimates, except for PE.  €/share |
|  |
| Source: Powered by dataCentral |

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| --- |
| Figure 75. KPN forecasts  €m except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 9,458 | 8,472 | 7,914 | 7,624 | 7,504 | 7,624 | 7,792 | | *growth, yoy* | (28.1%) | (10.4%) | (6.6%) | (3.7%) | (1.6%) | 1.6% | 2.2% | | Operating costs | (6,112) | (5,589) | (4,944) | (5,054) | (4,944) | (5,049) | (5,174) | | *growth, yoy* | (22.6%) | (8.6%) | (11.5%) | 2.2% | (2.2%) | 2.1% | 2.5% | | **EBITDA** | **3,346** | **2,883** | **2,969** | **2,570** | **2,560** | **2,575** | **2,617** | | *growth, yoy* | (36.5%) | (13.8%) | 3.0% | (13.5%) | (0.4%) | 0.6% | 1.7% | | *margin* | *35.4%* | *34.0%* | *37.5%* | *33.7%* | *34.1%* | *33.8%* | *33.6%* | |  |  |  |  |  |  |  |  | | EBIT | 1,386 | 1,026 | 1,193 | 855 | 871 | 974 | 981 | | **Net income** | **312** | **441** | **48** | **153** | **229** | **385** | **456** | | Basic EPS | 0.22 | 0.12 | 0.01 | 0.04 | 0.05 | 0.09 | 0.11 | | ***Consensus EPS*** | ***0.50*** | ***0.07*** | ***0.03*** | ***0.08*** | ***0.09*** | ***0.12*** | ***0.13*** | | ***Consensus DPS*** | ***0.07*** | ***0.00*** | ***0.07*** | ***0.09*** | ***0.10*** | ***0.13*** | ***0.15*** | |  |  |  |  |  |  |  |  | | Capex | (1,605) | (3,116) | (1,345) | (1,409) | (1,321) | (1,206) | (1,218) | | of which: spectrum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 155 | (1,190) | (82) | 481 | 808 | 1,029 | 1,116 | | **FCF post min divs** | **155** | **(1,190)** | **(82)** | **481** | **808** | **1,029** | **1,116** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **12,610** | **9,718** | **5,862** | **5,839** | **5,410** | **4,789** | **4,123** | | Net debt/EBITDA | 3.8x | 3.4x | 2.0x | 2.3x | 2.1x | 1.9x | 1.6x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Tele2 mobile network launch by beginning of 2015** – Tele2 is confirmed a soft launch at the beginning of next year (customers will be able to access the 4G network in March). A hard launch is set to follow later and 100% coverage is targeted for end 2016.
* **Vodafone potential purchase of Ziggo and Telenet** – Vodafone is considering making an offer for Liberty Global (see [Not done Convergin’ Nov 2014](https://www.citivelocity.com/cv2/go/RES_OV/X19OQVZJR0FUSU9OX0JBU0U2NF9fcmVuZGl0aW9uL2VwcHVibGljL2RvY3VtZW50U2VydmljZS9kWE5sY2w5cFpEMDVSa0ZvYlhSU2FsTjFNSGxEYlVkeE1rcFBVRFZuL1pHOWpYMmxrUFRVek9USTFOdw..)), which includes the cable assets Ziggo (Netherlands) and Telenet (Belgium). The timing on the deal is uncertain as Vodafone has yet to deliver on Project Spring and it hasn’t shown the merits on any of the cable deals it has acquired so far, however we believe a Vodafone/Ziggo combination would be a negative for KPN, as it would pose a strong convergent threat.
* **End of lock up of the E-Plus sale, April 2015** – KPN has the option to sell out of its 20.5% stake in Telefónica Deutschland in April, giving KPN the flexibility to further deleverage or invest.

### Consumer Residential expected to be stable in 2015

We believe KPN next year will continue to reap the benefits from its commercial residential strategy, expecting an ongoing improvement PSTN losses (f/c -90k in 2015, -180k in 2014 vs. -248k in 2013) and better IPTV net adds (f/c +120k in 2015, vs. +95k in 2014). Price pressure has eased during 2014 (price hikes in July from KPN and in March from Ziggo) and with investments being made in fibre and copper upgrades, broadband speeds on offer will improve significantly in 2015 (KPN’s 2015 targets are 80% coverage of speeds more than 40 Mbps, 65% having >100 Mbps, 55% having >200 Mbps and 30% having >500 Mbps).

However, we still worry about competition from cable (>90% coverage from a single competitor post the Ziggo/UPC merger), with Ziggo/UPC still offering twice the download speed at discounted pricing and KPN reporting negative broadband net adds YTD in 2014 (vs. +44k in 2013). We forecast 2015 revenue flat yoy in Consumer Residential; with consensus more ambitious at +1.2%.

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| Figure 76. Triple play pricing in the Netherlands |
|  |
| Source: Citi Research, Company data |

### Competitive advantage in quadplay

If Vodafone moves ahead with an acquisition of Liberty Global (unlikely in the near term in our view), competitive dynamics on convergence might be affected. However right now, we believe KPN is best positioned in quadplay, with attractive offers under both the KPN and Telfort brand, offering customers double the mobile data allowance and 45 extra TV channels, versus purchasing the products separately.

KPN’s push on quadplay should drive less churn and further IPTV net adds next year, with quadplay ARPU estimated at 3x higher than a basic broadband package. Ziggo launched an MVNO earlier this year, however KPN offers a better mobile brand and better value for money to the subscriber (for instance offering 4G which Ziggo/UPC don’t have). We believe convergence will drive profitability next year, forecasting quadplay penetration to reach 17% and 20% in 2015/16 respectively.

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| --- | --- | --- |
| Figure 77. Comparison of churn, depending on bundle |  | Figure 78. Comparison of ARPU, depending on bundle |
|  |  |  |
| Source: Citi Research, Belgacom |  | Source: Citi Research, Belgacom |

### **Fiber is the future**

With KPN having exercised the option to buy the outstanding stake in Reggefiber, we see KPN giving additional focus to this business, which will be key as DSL customers migrate to better technologies. KPN reports an “active customer” penetration rate on the Reggefiber network of around 30%, a figure it hopes to increase significantly in 2015 as customers now are obliged to sign up to a fibre offer, if they happen to live in an area where fibre is available. The ARPU uplift when customers take on fibre (according to the company) has been estimated to €14 and it predicts churn will halve.

We tweak our 2015/2016 forecasts on Reggefiber, forecasting 22% and 19% sales growth in 2015 and 2016 respectively with EBITDA. In addition, we forecast KPN will spend €180m and €120m on fibre roll out capex in 2015/16 respectively (22k and 150k homes at €800 per household). While 4G is becoming the norm, we believe fibre still gives KPN a competitive edge and that the value of fibre access will increase both because of demand and because the EC is changing direction away from unbundling.

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| Figure 79. Market share, xDSL vs. FttH |  | Figure 80. ARPU uplift, xDSL vs. FttH |  | Figure 81. Churn, xDSL vs. FttH |
| **+5%** |  | **+ EUR14** |  | **-50%** |
| Source: Citi Research, KPN CMD presentation |  | Source: Citi Research, KPN CMD presentation |  | Source: Citi Research, KPN CMD presentation |

### **Estimates downgraded in Consumer Wireless**

We see KPN as well positioned in mobile, offering the best network (100% 4G coverage) and offering multi-brand tariffs at prices which are currently competitive. In 3Q, KPN pointed to rising mobile data usage and improving data monetization. However, we remain cautious due to new mobile competitors entering the market; Tele2 expects to launch early in 2015 and UPC/Ziggo may gain traction in mobile post their merger (although current UPC/Ziggo mobile prices are in line with the market). We expect new entrants to take a combined 10% of market share by 2016, reflected in our mobile service revenue estimates for KPN where we expect -9.9% yoy revenue decline in Consumer Wireless in 2015, with consensus more bullish at -7.1%.

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| Figure 82. Mobile pricing in the Netherlands |
|  |
| Source: Citi Research, Company data |

### **Remain cautious on the Tele2 launch**

KPN on the 3Q call stated that they “have no plans to acquire Tele2” and Tele2 have confirmed a launch by the beginning of next year (customers will have access to the 4G network from March), most likely with an aggressive, price led strategy.

Despite the many management changes at Tele2 Netherlands, it has reported good progress regarding the network build out, targeting 100% 4G coverage at the end of 2016. Data prices have declined significantly over the past two years (–20%) in the Netherlands; but we believe that there is still room for Tele2 to undercut market prices, especially on 4G, where competing firms currently charge a premium. Furthermore, with the Netherlands still having significant upside to data usage (average usage in the Netherlands at 300 MB per month), Tele2 wants to replicate the 4G usage success they have had in Sweden.

Although Tele2 only has to compete with Vodafone and KPN on 4G (Vodafone not only letting the cable companies roam on 3G), Tele2 will however need to properly invest in distribution to sell their product. Tele2 have acquired strong net adds in mobile so far this year (+97k net adds YTD vs. +81k for KPN) and is aiming for 20% mkt share in 5-7 years after launch. Meanwhile, we would see a positive read-across from VOD/LIB deal for KPN where Ziggo-UPC would probably not disrupt the mobile market to the same extent.

### Status quo in B2B

B2B remains under pressure due to macro, however we predict KPN market share to remain stable in 2015/16, with minimal threat from cable and with Vodafone being less aggressive. We forecast a -3.9% revenue growth in Business Revenue in 2015, roughly in line with consensus.

### **Fundamental worries in Belgium**

Belgium has one of the lowest mobile data consumption and smartphone penetration levels across Europe, which leaves upside on mobile service revenue next year. However competitors Mobistar and Belgacom, who focus on higher spending contract customers, may benefit most from the data usage increase, while Base follows a challenger strategy with generally aggressive prices, reflected in its subscriber base which is predominantly prepaid (c.70%).

With a lack presence in the fixed market, it is harder for Base to compete in a converging market. In order to remedy this, Base recently signed a 5 year wholesale agreement with Belgacom to provide fixed offers using its DSL network.

On the positive, in an M&A exposed market like Belgium, we believe that KPN would be willing to consider the sale again if a compelling offer is put forward (see [Belgian Telecoms: Improving fundamentals wrapped with M&A](https://www.citivelocity.com/cv2/go/EQ_RES/X19OQVZJR0FUSU9OX0JBU0U2NF9fcmVuZGl0aW9uL2VwcHVibGljL2RvY3VtZW50U2VydmljZS9kWE5sY2w5cFpEMDVSa0ZvYlhSU2FsTjFNSGxEYlVkeE1rcFBVRFZuL1pHOWpYMmxrUFRVek9ESTFOQQ..)). We also believe that any cable-mobile consolidation in Belgium would be positive, as it may ease price pressure in mobile. Furthermore, Numericable has recently (Nov 2014) announced the switchover of its MVNO host to Base from Mobistar, with the majority of customers being moved over before year end. Updating numbers for these additional revenue, we estimate Belgian growth at -1.0%, slightly above consensus.

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| Figure 83. Mobile service revenue growth in Belgium |
|  |
| Source: Citi Research, Company data |

Slight upgrades to EBITDA

We see EBITDA stabilizing from year 2017 again, seeing KPN reaching targets to reduce opex/capex by €300m between 2013-16 and expecting the company to lower FTE employees by 1500-2000 until 2016. In addition, we factor in KPN’s product simplification program; reducing the portfolio to only 4 different fixed bundles, and reduce HI mobile brand offers by 60%. We forecast a margin of 33.7% and 34.1% for 2015 and 2016 respectively; around 2% below consensus. We make modest changes to FY14 estimates, keeping revenues flat, but upgrading EBITDA by 1.2% on the back of Consumer Residential.

We see downside to FCF consensus numbers

We see FCF (including TefD dividends and hybrid bond) doubling by year end 2016, triggered by our upgraded EBITDA forecasts (+1% in both 2015 and 2016), declining capex post 2015 (4G coverage has reaching 100%) and interest costs decreasing almost €100m in 2015 and around €60m in 2016 (recently announced redeeming another €500m of Reggefibre’s debt). With minimal cash tax to pay until 2021, we forecast a FCF of €613m in 2016, corresponding to a FCF yield of 6.7%. However this move is largely priced in already, with consensus estimating FCF of €671m for 2015 and of €759m in 2016. Furthermore, KPN recently announced a EUR 225m payout in 4Q14 in order to take advantage of better supplier terms. This is in line with their policy on using the E-plus proceeds to gain better financial flexibility, however we believe the poor cash conversion is worrying to investors.

More upside DPS left

We forecast DPS increasing 14% in 2016 to €0.08 (€0.075 in 2015), corresponding to a 3.0% dividend yield (sector at 3.8%) at a reasonable 48% payout of FCF and consistent with the company’s language that they would start using the TEF D dividends for financial flexibility.

Valuation not attractive enough

KPN trades at a slight discount to the sector on most metrics, at a 6.7x and 6.8x EV/EBITDA in 2015 and 2016 (versus the sector at 6.9x) and a 4.3% FCF yield in 2015, ramping up to 6.7% in 2016 (sector at 5.2%). Furthermore, we forecast further deleverage for KPN, with net debt / EBITDA coming down to 2.1x by 2016 (or 1.7x including hybrids), which is value accretive. Nevertheless, we remain cautious on mobile competition over the next two years with Tele2 launching 4G and intensifying convergent competition in the case of a Ziggo/Vodafone entity. We reiterate our Neutral stance with a new PT of €2.75 down from €2.80 due to revised estimates on cautious mobile outlook.

Millicom

## Riding the Content and Currency Waves

* Company Update

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| --- |
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| simon.weeden@citi.com |
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| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | SKr586.50 |
| Target price | SKr665.00 |
| Expected share price return | 13.4% |
| Expected dividend yield | 3.5% |
| **Expected total return** | 16.9% |
| Market Cap | SKr56,800M |
|  | US$7,527M |

|  |
| --- |
| Price Performance (RIC: MICsdb.ST, BB: MIC SS) |
|  |

* **Neutral** — Millicom’s all-encompassing mobile, cable and content proposition should be transformational and market leading in key countries. Doubts in our mind surfaced this year over cash generation, UNE integration (limited information provided) and specific country risks (regulatory, political, and economic). The brunt of these risks has passed or been surpassed by possible upside from execution of strategy. The upside from the transformation is adequately captured in today’s US$ valuation in our view, however the upside to our TP reflects expected movements in USDSEK. The CEO Hans-Holger Albrecht stepped down as CEO recently; it is too early to draw firm conclusions on this news.
* **Capturing the content opportunity** — Monetising the explosion of data in mobile and cable can take many forms, beyond outright ARPU increases. Millicom has great partnerships for exclusive content; Social Media (Paraguay), Music Streaming (Colombia) and Sports Content. These help to increase product attractiveness and reduce churn (which is not broadly disclosed). The availability of cheaper entry level smartphones will encourage increasing data penetration in mobile. There should be substantial cross selling opportunities across cable and mobile in Colombia.
* **To worry about USD-EM FX is to miss the bigger picture** — Whilst US$ reported growth (ex M&A) will undoubtedly slow through 2015 (starting 4Q14) as a result of FX headwinds (particularly Colombia and Paraguay), the shares trade in SEK which may help to offset the effects of US$ strength in the near term. Strong execution of the plan to 2017, combined with some local currency debt hedges should ensure that Millicom shares, in SEK, should perform reasonably.
* **Outlook** — We remain skeptical over 2017 targets. We therefore maintain a Neutral rating on balance. We recently made minor changes to our underlying estimates, predominantly for higher D&A in UNE, which lowered our underlying EPS forecast by -9% / -52% / -32%, which is below consensus. Our TP remains at SEK665.

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| **Millicom Intl Cellular (USD)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales ($M) | 4,814.0 | 5,159.0 | 6,402.7 | 7,503.8 | 8,064.7 |
| Net Income ($M) | 655.0 | 465.0 | 163.4 | 137.4 | 284.5 |
| Diluted EPS ($) | 6.46 | 4.66 | 1.64 | 1.37 | 2.84 |
| Diluted EPS (Old) ($) | 6.46 | 4.66 | 1.64 | 1.37 | 2.84 |
| PE (x) | 12.0 | 16.7 | 47.5 | 56.6 | 27.3 |
| EV/EBITDA (x) | 4.5 | 5.3 | 5.3 | 4.7 | 4.3 |
| DPS ($) | 2.64 | 2.64 | 2.64 | 2.64 | 3.00 |
| Net Div Yield (%) | 3.4 | 3.4 | 3.4 | 3.4 | 3.9 |

## Riding the Content and Currency Waves

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| Figure 84. Millicom’s relative underperformance has been gradual through 2014, (left axis p/share; right axis index: end-2006=100) |  | Figure 85. Millicom looks expensive vs. sector on PE (1 year forward) |
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| Source: DataStream |  | Source: DataStream |
| Figure 86. Consensus EPS has further to fall (US$) |  | Figure 87. EBITDA consensus in line with estimates ($bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 88. Compared to its incumbent and wireless peers in Europe, Millicom looks expensive on most metrics on our 2015 and 2016 estimates.  SEK/share |
|  |
| Source: Powered by dataCentral |

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| Figure 89. Millicom forecasts  SEKm except per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 4,814 | 5,159 | 6,403 | 7,504 | 8,065 | 8,626 | 9,129 | | *growth, yoy* | 6.3% | 7.2% | 24.1% | 17.2% | 7.5% | 7.0% | 5.8% | | Operating costs | (2,893) | (3,474) | (4,312) | (5,105) | (5,439) | (5,701) | (5,969) | | *growth, yoy* | 13.2% | 20.1% | 24.1% | 18.4% | 6.5% | 4.8% | 4.7% | | **EBITDA** | **1,921** | **1,685** | **2,091** | **2,399** | **2,626** | **2,925** | **3,160** | | *growth, yoy* | (2.7%) | (12.3%) | 24.1% | 14.7% | 9.5% | 11.4% | 8.0% | | *margin* | *39.9%* | *32.7%* | *32.7%* | *32.0%* | *32.6%* | *33.9%* | *34.6%* | |  |  |  |  |  |  |  |  | | EBIT | 1,104 | 781 | 935 | 1,045 | 1,263 | 1,552 | 1,780 | | **Net income** | **655** | **465** | **163** | **137** | **285** | **431** | **580** | | EPS | 5.01 | 2.29 | 1.64 | 1.37 | 2.84 | 4.31 | 5.80 | | ***Consensus EPS*** | ***6.46*** | ***4.70*** | ***2.28*** | ***3.58*** | ***4.92*** | ***5.97*** | ***6.42*** | | DPS | 2.64 | 2.64 | 2.64 | 2.64 | 3.00 | 3.50 | 3.75 | | ***Consensus DPS*** | ***2.64*** | ***2.64*** | ***2.73*** | ***2.85*** | ***3.32*** | ***3.69*** | ***3.14*** | |  |  |  |  |  |  |  |  | | Capex | (1,001) | (1,130) | (1,274) | (1,417) | (1,472) | (1,352) | (1,456) | | of which: spectrum | (198) | (201) | (81) | (23) | (127) | (28) | (69) | | FCF pre min divs | 584 | 80 | 337 | 404 | 445 | 802 | 915 | | **FCF post min divs** | **567** | **23** | **37** | **234** | **245** | **502** | **565** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **2,085** | **3,217** | **4,075** | **4,105** | **4,124** | **3,922** | **3,708** | | Net debt/EBITDA | 1.1x | 1.9x | 1.9x | 1.7x | 1.6x | 1.3x | 1.2x | |
| Source: Powered by dataCentral |

## Significant upcoming events

* 4Q14 Results: As the CEO has left in quick succession to the previous CFO (Aug-13), scrutiny will be placed on any subtle changes in wording of the long-term 2017 guidance. 4Q14 will also provide another data point on the UNE acquisition for investors to be able to judge the quality of the underlying assets, the potential for growth and the progress of the integration. Confirmation of margin inflection in the legacy Millicom business experienced during 3Q14 would be well received.
* Appointment of new Management Team: Tim Pennington (joined Jun-14) will be joined by an external candidate CEO, presumably at some point in 2015. Millicom has currently set ambitious targets for 2017, which the new management team may wish to reign in to remove any execution risk over long term targets.

## >$9bn revenue target challenging

We attempt to decipher the Millicom revenue guidance from the various disclosures made during the 2014 CMD and split it by product. We then compare our estimates against our interpretation of Millicom guidance. The result of this comparison is that we under-index on B2C cable and MFS, but come very close on mobile.

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| --- |
| Figure 90. 2017 Revenue Guidance vs. Citi Estimates (USD’m) |
| Total = $8,626m  xt  MFS: MIC +$0.2 – 0.4bn  Citi: +$0.2bn  Mobile: MIC +$1.0 – 1.2bn  Citi: +$1.1bn  Cable B2C: MIC +$0.5 – 0.9bn  Citi: $+0.5bn  Total = $6,892  Total = >$9bn |
| Source: Citi Research Estimates |

Having identified that B2C cable and MFS is where our revenue estimates fall short of our interpretation of management’s guidance for 2017, it is even more concerning that our EBITDA margin forecast also falls short (Citi: 33.9%, vs. guidance 35%). These are potentially low margin incremental revenues that we may be omitting (PayTV and MFS), which would further dilute our margin assumptions.

Mobistar

## M&A prospects support improving fundamentals

* Company Update

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| --- |
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| **Buy** | **1** |
| Price (12 Dec 14) | €18.86 |
| Target price | €23.00 |
| Expected share price return | 22.0% |
| Expected dividend yield | 0.0% |
| **Expected total return** | 22.0% |
| Market Cap | €1,132M |
|  | US$1,410M |

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| Price Performance (RIC: MSTAR.BR, BB: MOBB BB) |
|  |

* **We reiterate our Buy rating on Mobistar, at a price target of €23.0** — Mobistar continues to experience improvement in service revenue trends and we expect launch of its cable offer to provide some further support. While organic trends continue to improve,we see the story supported by M&A prospects. Our target price of €23.0 is based on a probability weighted analysis of stand-alone and bid outcomes. We attach a 30% probability to a bid. We assume a takeout multiple of 8.5x (pre-synergy, a c.20% premium to the sector at 7.0x) and this equates to a price of €29.0/share. In a stand-alone scenario, we value Mobistar at 6.5x 2014e EV/EBITDA at a price of €20.0/share.
* **Positive results** — After 7 quarters of consecutively losing post-paid subscribers, Mobistar finally reported positive postpaid net adds at 3Q — ahead of its target to achieve this by year-end. Mobistar also raised the floor of its adjusted EBITDA guidance range revising it to €260-280m (from €250-280m) excluding cable costs. Service revenue trends continued to improve to -7.3% from -10.3%/-14.5% in 2Q/1Q as the impact of repricing fades away. We note that the decline in blended ARPU has been improving over the last 3 quarters. We continue to see ARPU upside coming from increased data usage on 4G, which according to management is 4-5x more on 4G (vs. 3G).
* **Launch of cable to gain traction at low-end** — We expect Mobistar to launch cable by the end of the year on a test basis with commercial launch in 1H 2015. We suspect Mobistar may launch basic (low-content) offers as a first step in Wallonia, where its prices can be lower. We believe that Mobistar will be able to gain some traction initially, poaching subscribers from Snow/Scarlet as well some from Belgacom (subscribers with low appetite for content but preferring speeds offered by cable) and cable operators (possibly from Voo in Wallonia). However, Mobistar may struggle to gain significant momentum (particularly on the high-end) and struggle to compete with Belgacom and Telenet who can offer better quadruple play products, in our view.
* **Investment case supported by M&A prospects** — Telenet’s decision to not propose shareholder distributions increases hopes for M&A. Telenet could acquire Mobistar given the existing MVNO agreement. In the event of a takeover, we estimate NPV of synergies of €0.95bn. We assume a take-out multiple of 8.5x EV/EBITDA, which would equate to a price of €29.0. Adjusting for synergies takes the multiple down to 6.7x.

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| **Mobistar SA (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 1,702.5 | 1,494.1 | 1,268.2 | 1,228.0 | 1,226.6 |
| Net Income (€M) | 185.7 | 87.4 | 41.5 | 42.2 | 44.4 |
| Diluted EPS (€) | 3.09 | 1.46 | 0.69 | 0.70 | 0.76 |
| Diluted EPS (Old) (€) | 3.09 | 1.46 | 0.69 | 0.70 | 0.76 |
| PE (x) | 6.1 | 13.0 | 27.2 | 26.9 | 24.9 |
| EV/EBITDA (x) | 3.3 | 5.0 | 6.3 | 6.4 | 6.3 |
| DPS (€) | 1.80 | 0.00 | 0.00 | 0.60 | 0.59 |
| Net Div Yield (%) | 9.5 | 0.0 | 0.0 | 3.2 | 3.1 |

## M&A prospects support improving fundamentals

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| Figure 91. Mobistar has outperformed the sector in the last 12 months (left axis/share; right axis index: end-07=100) |  | **Figure 92. Mobistar trades at premium to the sector on PE (1 year forward)** |
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| Source: DataStream |  | Source: DataStream |
| Figure 93. Consensus EPS has improved slightly after reaching a trough (€) |  | Figure 94. EBITDA consensus is also at inflection point (€bn) |
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| Source: DataStream |  | Source: DataStream |

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| Figure 95. Compared to its incumbent and wireless peers in Europe, Mobistar trades around the median on our 2015 and 2016 estimates  €/share |
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| Source: Powered by dataCentral |

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| --- |
| Figure 96. Mobistar forecasts  €m except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 1,703 | 1,494 | 1,268 | 1,228 | 1,227 | 1,231 | 1,237 | | *growth, yoy* | 0.2% | (12.2%) | (15.1%) | (3.2%) | (0.1%) | 0.4% | 0.4% | | Operating costs | (1,233) | (1,159) | (991) | (963) | (960) | (962) | (965) | | *growth, yoy* | 5.4% | (6.0%) | (14.5%) | (2.8%) | (0.3%) | 0.2% | 0.3% | | **EBITDA** | **470** | **336** | **277** | **265** | **267** | **270** | **272** | | *growth, yoy* | (11.4%) | (28.6%) | (17.4%) | (4.4%) | 0.6% | 1.1% | 0.8% | | *margin* | *27.6%* | *22.5%* | *21.9%* | *21.6%* | *21.7%* | *21.9%* | *22.0%* | |  |  |  |  |  |  |  |  | | EBIT | 253 | 147 | 87 | 73 | 76 | 86 | 94 | | **Net income** | **186** | **87** | **42** | **42** | **44** | **51** | **57** | | EPS pre excepts | 2.55 | 1.87 | 0.98 | 0.70 | 0.76 | 0.89 | 1.00 | | ***Consensus EPS*** | ***3.09*** | ***1.46*** | ***0.79*** | ***0.83*** | ***0.95*** | ***1.19*** | ***1.26*** | | DPS | 1.80 | 0.00 | 0.00 | 0.60 | 0.59 | 0.69 | 0.76 | | ***Consensus DPS*** | ***1.80*** | ***0.00*** | ***0.04*** | ***0.27*** | ***0.51*** | ***0.73*** | ***0.75*** | |  |  |  |  |  |  |  |  | | Capex | (189) | (199) | (198) | (185) | (155) | (156) | (156) | | of which: spectrum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 113 | 30 | 29 | 49 | 80 | 79 | 78 | | **FCF post min divs** | **113** | **30** | **29** | **49** | **80** | **79** | **78** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **407** | **557** | **529** | **501** | **477** | **453** | **436** | | Net debt/EBITDA | 0.9x | 1.7x | 1.9x | 1.9x | 1.8x | 1.7x | 1.6x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **4Q14 results** – Mobistar is expected to publish its 4Q14 results on 4 February 2015.
* **Launch of cable** – We believe that Mobistar will launch cable on a test basis by 4Q14 with commercial launch in 1H 2015.
* **Regulator’s decision on Mobistar’s request on retail minus wholesale price.** Mobistar has requested the regulator to take into account of the supplementary services (WIFI hotspots, webspace, Yelo TV etc) provided by cable operators as well as promotional discounts when arriving at the wholesale price for cable. The decision on this is expected in 1H 2015.
* **Outcome of appeal on Walloon Pylon tax** – The outcome of the appeal is expected in the next few months. A positive outcome is an upside for Mobistar as it has already provisioned for this tax as part of its guidance.
* **Potential bid from Telenet** – Telenet’s recent announcement to not propose shareholder distribution increases speculation for M&A in our view. We believe that Telenet has the motivation to acquire a mobile network operator and Mobistar is the natural choice given its current MVNO agreement with Telenet. However given that its MVNO agreement with Mobistar (at favourable terms) runs until 2017e, there is no urgency in this respect.
* **Potential M&A event** – The timing of an M&A event remains uncertain.

Orange

## Better placed into 2015

* Company Update

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|  |  |
| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | €13.55 |
| Target price | €15.00 |
| *from €12.00* |  |
| Expected share price return | 10.7% |
| Expected dividend yield | 4.4% |
| **Expected total return** | 15.2% |
| Market Cap | €35,879M |
|  | US$44,713M |

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| Price Performance (RIC: ORAN.PA, BB: ORA FP) |
|  |

* **Orange is slowing its decline, and has some attractive market exposure** —Orange’s exposure to potentially improving markets in France, Spain and Poland put it in an interesting position as 2015 begins. In time we see upside potential from consolidation in French mobile and we would expect Spain to see some market repair in fixed and mobile following Vodafone’s acquisition of Ono and Orange’s purchase (pending approval) of Jazztel. We revise our SOP based target price with multiples for France and Spain rising to reflect better market outlooks and peer trading levels bringing our target price up to €15 vs €12/share previously. We retain a Neutral rating.
* **Valuation** —Orange’s EV/EBITDA multiple is 5.6x on our 2015 estimates. Note though that on our estimates forecast outflows from provisions and working cap are c.7% of EBITDA, adding 0.4x to the multiple. Adjusting for wholesale revenue from Iliad and SFR (around €950m pa) which is likely to fade adds another 0.5x and dilution from the Jazztel deal would add around another 0.2x taking the multiple to 6.8x vs the sector on 6.9x.
* **Jazztel acquisition** —Orange’s agreed takeover of Jazztel has been referred to a Phase 2 review by the European Commission with a deadline of 24 April 2015. Orange’s offer is €3.8bn EV (€13 per share) which it put at 8.6x 2015 EBITDA after synergy (€160m of run rate which at 13.5% of Jazztel’s sales seems ambitious to us). Orange has issued €3bn of hybrids and as it is aiming to match agency equity credit to the equity consideration paid to Jazztel shareholders it will need to issue equity-like instruments for another c.€1.9bn.
* **Momentum in places** —Encouragingly, fixed-line revenue at Orange France emerged into positive revenue growth in 2Q14. FTTH adds are picking up and growth held up in fixed line in Spain too. However, mobile service revenue remained weak with France, Spain and Poland continuing to decline quite rapidly, partly due to separation of handset-related revenue from service plans. Growth at EE also remained slightly negative even though its 4G-first policy led to success with 1.3m 4G net additions in the quarter alone.

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| **Orange (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 43,515.0 | 40,981.0 | 39,137.0 | 38,497.2 | 38,334.1 |
| Net Income (€M) | 4,342.0 | 3,315.0 | 3,266.9 | 3,174.9 | 3,091.5 |
| Diluted EPS (€) | 1.65 | 1.26 | 1.23 | 1.20 | 1.17 |
| Diluted EPS (Old) (€) | 1.65 | 1.26 | 1.25 | 1.22 | 1.19 |
| PE (x) | 8.2 | 10.7 | 11.1 | 11.5 | 11.8 |
| EV/EBITDA (x) | 4.7 | 5.2 | 5.4 | 5.4 | 5.3 |
| DPS (€) | 0.80 | 0.80 | 0.60 | 0.60 | 0.60 |
| Net Div Yield (%) | 5.9 | 5.9 | 4.4 | 4.4 | 4.4 |

## Better placed into 2015

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| --- | --- | --- |
| Figure 97. Orang's relative performance has stabilised since mid-13 (left axis €/share; right axis index: end-2006=100) |  | Figure 98. Orange trades well below the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 99. Consensus EPS is continuing to decline (€) |  | Figure 100. EBITDA consensus has been declining since end-08 (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 101. Compared to its incumbent and wireless peers in Europe, Orange trades at or below the lower quartile on our 2015 and 2016 estimates  €/share |
|  |
| Source: Powered by dataCentral, Citi Research |

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| --- |
| Figure 102. Orange forecasts  €m except per share items in €, year to Dec |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 43,515 | 40,981 | 39,137 | 38,497 | 38,334 | 38,442 | 38,445 | | *growth, yoy* | (3.9%) | (5.8%) | (4.5%) | (1.6%) | (0.4%) | 0.3% | 0.0% | | Operating costs | (29,730) | (28,332) | (26,991) | (26,577) | (26,502) | (26,660) | (26,696) | | *growth, yoy* | (1.5%) | (4.7%) | (4.7%) | (1.5%) | (0.3%) | 0.6% | 0.1% | | **EBITDA** | **13,785** | **12,649** | **12,146** | **11,921** | **11,832** | **11,781** | **11,749** | | *growth, yoy* | (8.6%) | (8.2%) | (4.0%) | (1.9%) | (0.7%) | (0.4%) | (0.3%) | | *margin* | *31.7%* | *30.9%* | *31.0%* | *31.0%* | *30.9%* | *30.6%* | *30.6%* | |  |  |  |  |  |  |  |  | | EBIT | 7,456 | 6,597 | 6,099 | 5,891 | 5,774 | 5,693 | 5,644 | | **Net income** | **4,342** | **3,315** | **3,267** | **3,175** | **3,092** | **3,114** | **3,105** | | EPS | 1.65 | 1.26 | 1.23 | 1.20 | 1.17 | 1.18 | 1.17 | | ***Consensus EPS*** | ***1.28*** | ***1.04*** | ***0.91*** | ***0.96*** | ***0.99*** | ***1.04*** | ***1.08*** | | DPS | 0.80 | 0.80 | 0.60 | 0.60 | 0.60 | 0.60 | 0.65 | | ***Consensus DPS*** | ***0.80*** | ***0.80*** | ***0.60*** | ***0.59*** | ***0.61*** | ***0.61*** | ***0.65*** | |  |  |  |  |  |  |  |  | | Capex | (7,073) | (6,080) | (6,073) | (5,891) | (5,590) | (5,627) | (5,531) | | of which: spectrum | (1,255) | (449) | (400) | (300) | 0 | 0 | 0 | | FCF pre min divs | 3,447 | 1,487 | 2,927 | 3,413 | 3,960 | 3,828 | 4,147 | | **FCF post min divs** | **2,864** | **1,128** | **2,421** | **2,979** | **3,526** | **3,394** | **3,699** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **34,156** | **34,296** | **32,783** | **31,532** | **29,702** | **27,989** | **26,140** | | Net debt/EBITDA | 2.5x | 2.7x | 2.7x | 2.6x | 2.5x | 2.4x | 2.2x | |
| Source: Powered by dataCentral |

## Significant upcoming events

* **Jazztel deal, Phase 2 review deadline 24 April 2015** – Orange has said that it expects to close the acquisition of Jazztel following a competition review in 1H15. On 4 Dec this was moved to a phase 2 review with a deadline of 24 April 2015, although that could be extended.
* **Yoigo (Spain)** –Prior to Orange’s agreed bid for Jazztel, TeliaSonera said it was in talks with Jazztel and other parties about the future of Yoigo, the fourth Spanish mobile operator. Although Orange has previously expressed an interest in Yoigo, according to El Pais on 12 Oct 2014 CEO Stephane Richard says that Orange is not looking at any acquisitions in Spain aside from Jazztel at the moment.
* **Disposal of EE** – BT is in exclusive negotiations with DT and Orange about an acquisition of EE for £12.5bn roughly 50/50 in stock and cash. Orange would receive £4.68bn and 4% of the post deal BT. BT anticipates notifying the transaction to the Competition & Markets Authority in the UK. Ordinarily a Phase 1 review would take 40 days and as the two operators have relatively little overlap, we see a good chance of clearance at that stage, probably subject to BT’s spectrum ranges at 2600MHz being sold.

## Forecast revisions

Our forecast revisions reduce group EBITDA by a little under 1% for each of 2014-16 and are due to somewhat moderating the sharp pace of recovery in our previous expectations for mobile ARPU in both France and Spain.

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| --- |
| Figure 103. Orange Forecast Revisions  €m, year to Dec |
| |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  | **New** |  |  |  | **Prior** |  |  |  | **∆%** |  | | **Year to Dec** | **2014E** | **2015E** | **2016E** |  | **2014E** | **2015E** | **2016E** |  | **2014E** | **2015E** | **2016E** | | Revenue | 39,137 | 38,497 | 38,334 |  | 39,313 | 38,783 | 38,607 |  | (0.4%) | (0.7%) | (0.7%) | | *growth, yoy* | (4.5%) | (1.6%) | (0.4%) |  | (4.1%) | (1.3%) | (0.5%) |  |  |  |  | | Operating costs | (26,991) | (26,577) | (26,502) |  | (27,108) | (26,766) | (26,678) |  | (0.4%) | (0.7%) | (0.7%) | | *growth, yoy* | (4.7%) | (1.5%) | (0.3%) |  | (4.3%) | (1.3%) | (0.3%) |  |  |  |  | | **EBITDA** | **12,146** | **11,921** | **11,832** |  | **12,205** | **12,016** | **11,929** |  | **(0.5%)** | **(0.8%)** | **(0.8%)** | | *growth, yoy* | (4.0%) | (1.9%) | (0.7%) |  | (3.5%) | (1.5%) | (0.7%) |  |  |  |  | | *margin* | *31.0%* | *31.0%* | *30.9%* |  | *31.0%* | *31.0%* | *30.9%* |  | (1bp) | (2bp) | (3bp) | |  |  |  |  |  |  |  |  |  |  |  |  | | EBIT | 6,099 | 5,891 | 5,774 |  | 6,156 | 5,980 | 5,861 |  | (0.9%) | (1.5%) | (1.5%) | | **Net income** | **3,267** | **3,175** | **3,092** |  | **3,306** | **3,236** | **3,150** |  | **(1.2%)** | **(1.9%)** | **(1.9%)** | | EPS | 1.04 | 1.09 | 1.06 |  | 1.06 | 1.11 | 1.08 |  | (1.4%) | (2.1%) | (2.0%) | | DPS | 0.60 | 0.60 | 0.60 |  | 0.60 | 0.60 | 0.60 |  | 0.0% | 0.0% | 0.0% | |  |  |  |  |  |  |  |  |  |  |  |  | | Capex | (6,073) | (5,891) | (5,590) |  | (6,097) | (5,931) | (5,628) |  | (0.4%) | (0.7%) | (0.7%) | | FCF pre min divs | 2,927 | 3,413 | 3,960 |  | 2,987 | 3,507 | 4,057 |  | (2.0%) | (2.7%) | (2.4%) | | **FCF post min divs** | **2,421** | **2,979** | **3,526** |  | **2,480** | **3,073** | **3,623** |  | **(2.4%)** | **(3.1%)** | **(2.7%)** | |  |  |  |  |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **32,783** | **31,532** | **29,702** |  | **32,765** | **31,487** | **29,628** |  | **0.1%** | **0.1%** | **0.3%** | | Net debt/EBITDA | 2.7x | 2.6x | 2.5x |  | 2.7x | 2.6x | 2.5x |  | 0.0x | 0.0x | 0.0x | |
| Source: Citi Research Estimates |

## Valuation

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| Figure 104. Orange sum of the parts valuation comes to €15 per share, €m |
| |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Asset** | **Stake** | **Driver** | **EV** | **Net debt** | **Orange** | **Per Share** | **% of** | **% of** | |  |  | **(2014)** | **(€m)** | **(2014E)** | **equity** | **(€)** | **Equity** | **EV** | |  |  |  |  |  |  |  |  |  | | French Fixed line | 100% | 6.5x EV/EBITDA | 27,631 | 0 | 27,631 | 10.43 | 69.8% | 39.8% | | French Mobile | 100% | 6.0x EV/EBITDA | 15,551 | 0 | 15,551 | 5.87 | 39.3% | 22.4% | | **French assets** |  |  | **43,182** |  | **43,182** | **16.30** | **109.0%** | **62.1%** | |  |  |  |  |  |  |  |  |  | | Spain | 99.98% | 6.5x EV/EBITDA | 6,136 | 0 | 6,135 | 2.32 | 15.5% | 8.8% | | Orange Poland | 49.79% | Listed Value | 3,971 | (1,196) | 1,382 | 0.52 | 3.5% | 2.0% | | UK | 50% | DDM - 10% | 12,269 | (2,048) | 5,110 | 1.93 | 12.9% | 7.4% | | **Principle European Assets** |  |  | **22,377** | **(1,196)** | **12,627** | **4.77** | **31.9%** | **18.2%** | |  |  |  |  |  |  |  |  |  | | Mobistar | 52.91% | Listed Value | 1,632 | (501) | 599 | 0.23 | 1.5% | 0.9% | | Mobinil | 93.92% | Listed Value | 2,452 | (656) | 1,686 | 0.64 | 4.3% | 2.4% | | Mobilrom (Romania) | 96.82% | 1.5x EV/Revenues | 1,395 | 0 | 1,351 | 0.51 | 3.4% | 1.9% | | Slovakia Mobile | 100.00% | 1.5x EV/Revenues | 912 | 0 | 912 | 0.34 | 2.3% | 1.3% | | Jordan | 51.00% | 1.8x EV/Revenues | 669 | 0 | 341 | 0.13 | 0.9% | 0.5% | | Senegal Mobile | 42.33% | 1.8x EV/Revenues | 1,346 | 0 | 570 | 0.22 | 1.4% | 0.8% | | Ivory Coast | 85.00% | 1.5x EV/Revenues | 1,030 | 0 | 875 | 0.33 | 2.2% | 1.3% | | Mali | 29.71% | 1.8x EV/Revenues | 869 | 0 | 258 | 0.10 | 0.7% | 0.4% | | Cameroon | 99.50% | 1.8x EV/Revenues | 496 | 0 | 493 | 0.19 | 1.2% | 0.7% | | Moldavia | 94.31% | 1.5x EV/Revenues | 224 | 0 | 211 | 0.08 | 0.5% | 0.3% | | Kenya | 40.00% | 1.8x EV/Revenues | 157 | 0 | 63 | 0.02 | 0.2% | 0.1% | | Madagascar | 71.80% | 1.8x EV/Revenues | 130 | 0 | 93 | 0.04 | 0.2% | 0.1% | | Botswana | 43.70% | 1.8x EV/Revenues | 152 | 0 | 66 | 0.03 | 0.2% | 0.1% | | Other | 65.00% | 1.8x EV/Revenues | 676 | 0 | 440 | 0.17 | 1.1% | 0.6% | | **RoW Assets** |  |  | **12,139** | **(1,156)** | **7,959** | **3.00** | **20.1%** | **11.5%** | |  |  |  |  |  |  |  |  |  | | Enterprise | 100% | 5.0x EV/EBITDA | 4,849 | 0 | 4,849 | 1.83 | 12.2% | 7.0% | | IC&SS | 100% | 4.0x EV/EBITDA | (147) | 0 | (147) | (0.06) | (0.4%) | (0.2%) | | Tunisia | 49% |  | 96 |  | 96 | 0.04 | 0.2% | 0.1% | | Meditel (Morroco) | 40% |  | 2,140 | (540) | 640 | 0.24 | 1.6% | 0.9% | | Korek (Iraq) | 20% |  | 1,429 | (554) | 175 | 0.07 | 0.4% | 0.3% | | Dailymotion | 100% |  | 120 |  | 120 | 0.05 | 0.3% | 0.2% | | **Total Assets** |  |  | **86,185** | **(2,353)** | **69,501** | **26.24** | **175.5%** | **100.0%** | |  |  |  |  |  |  |  |  |  | | Post employment benefits |  |  |  |  | (2,722) | (1.03) | (6.9%) |  | | NPV of tax assets (5 years) |  |  |  |  | 684 | 0.26 | 1.7% |  | | Unfunded pension liabilities and retirement indemnities |  |  |  |  | (972) | (0.37) | (2.5%) |  | | Equity component of TDIRA |  |  |  |  | (425) | (0.16) | (1.1%) |  | | Debt adjustment for minorities and other |  |  |  | 2,353 |  | 0.89 | 5.9% |  | | **Net debt inc perpetuals (2015E)** |  |  |  | **(28,810)** |  | **(10.88)** | (72.7%) |  | |  |  |  |  |  |  |  |  |  | | **Equity Value** |  | **Number of shares** | **2,649** |  |  | **15.0** | **100.0%** |  | |
| Source: dataCentral, Citi Research |

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| Figure 105. Orange DCF comes to €15 per share  €m, year to Dec |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Free cash flow** | **2012** | | **2013** | | **2014E** | | **2015E** | | **2016E** | | **2017E** | **2018E** | | |  |  | |  | |  | |  | |  | |  |  | | | EBITDA | 13,785 | | 12,649 | | 12,146 | | 11,921 | | 11,832 | | 11,781 | 11,749 | | | Movements in working cap | (56) | | (110) | | (729) | | (400) | | (200) | | (200) | (100) | | | Restructuring/other | (694) | | (119) | | (269) | | (190) | | (106) | | (78) | 58 | | | Capex inc spectrum | (7,073) | | (6,080) | | (6,073) | | (5,891) | | (5,590) | | (5,627) | (5,531) | | | Tax paid | (1,145) | | (3,287) | | (883) | | (910) | | (975) | | (1,170) | (1,261) | | | Interest paid | (1,874) | | (1,874) | | (1,682) | | (1,596) | | (1,550) | | (1,502) | (1,479) | | | Divs received | 504 | | 308 | | 417 | | 481 | | 547 | | 624 | 711 | | | Divs paid to minorities | (583) | | (359) | | (507) | | (434) | | (434) | | (434) | (449) | | | **Free cash flow** | **2,864** | | **1,128** | | **2,421** | | **2,979** | | **3,526** | | **3,394** | **3,699** | | |  |  | |  | |  | |  | |  | |  |  | | | Interest/divs added back | 1,953 | | 1,925 | | 1,772 | | 1,550 | | 1,437 | | 1,312 | 1,217 | | | Tax shield on interest | (625) | | (625) | | (561) | | (532) | | (516) | | (501) | (493) | | | **Unlevered FCF** | **4,192** | | **2,428** | | **3,632** | | **3,997** | | **4,446** | | **4,206** | **4,422** | | |  |  |  | |  | |  | |  | |  | | |  | | Value of yrs 1-8 cash flows | 24,677 |  | |  | | Market gearing (D/E) | | | |  | | | 33.0% | | Fade period value | 26,725 |  | |  | | Tax rate | |  | |  | | | 33.3% | | Terminal value | 16,274 |  | |  | | Risk free rate | | | |  | | | 1.0% | | Other | 0 |  | |  | | Bond spread | | | |  | | | 2.5% | | **Enterprise value** | **67,676** |  | |  | | Equity market premium | | | |  | | | 6.0% | | Post BS events | 1,790 |  | |  | | Asset beta | | | |  | | | 1.10 | | Minority equity value | (4,418) |  | |  | | **WACC** | |  | |  | | | **7.4%** | | Associate equity value | 6,141 |  | |  | |  | |  | |  | | |  | | Net debt @ end 2015E | (31,532) |  | |  | | Capex growth during fade period | | | | | | | 4.0% | | **Equity value** | **39,656** |  | |  | | TY ROCE spread over WACC | | | | | | | 4.4% | |  |  |  | |  | |  | |  | |  | | |  | | Number of shares (mn) | 2,649 |  | |  | | Perpetuity growth (post yr 25) | | | | | | | 1.5% | | **Implied share price (€)** | **15.0** |  | |  | | **Implied perp growth post year 4** | | | | | | | **0.1%** | |
| Source: Company Reports and Citi Research Estimates |

OTE

## Fundamentals improving, but elections may be looming

* Company Update

|  |
| --- |
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|  |

|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | €8.60 |
| Target price | €15.00 |
| Expected share price return | 74.4% |
| Expected dividend yield | 2.3% |
| **Expected total return** | 76.7% |
| Market Cap | €4,215M |
|  | US$5,253M |

|  |
| --- |
| Price Performance (RIC: OTEr.AT, BB: HTO GA) |
|  |

* **Greek spring** — the mobile market is showing improvement in terms of service revenue performance, mainly driven by the growth in mobile data demand. Greece has the lowest data usage in Europe and –unlike voice- the pricing is very rational (perhaps even higher than the ideal level for inflection). The coming quarters should see further evidence of improvement in service revenues as voice pricing remains stable (since 3Q13) and data growth picks up. A more favorable economic environment means that the headwinds that impacted the performance over the last five years are largely behind us. We lower our estimates 2-4% due to changes to our estimates in Romania for the impact of MTR cuts and the tougher comps at ICT revs at Romtel.
* **Wireline also turning** —retail revenues declined by 1.8% YoY in 3Q14 (-6.8% in 3Q13) as it delivers consistent improvement. OTE continues to gain market share in broadband since 1Q14, on the back of new offers in the market and more rational overall pricing, which has been broadly stable since Forthnet’s 2H13 triple play launch. We believe that demand for VDSL will accelerate in the coming quarters as speeds on ADSL are pretty poor. The migration leaders to c.€5 ARPU uplift.
* **Pay TV dominance on the horizon** —OTE managed to win the rights for the UEFA champions and Europa league for 2015-2018 as well as some Basketball rights. At this point, we believe the balance has firmly tilted in its favour in terms of content vs the market leader (Nova). Given Nova’s owner (Forthnet) has breached its covenants and is no longer a going concern…
* **Buy- price target of €15:** We believe OTE is well positioned to benefit from pent up demand in mobile data (by far the best network both in terms of coverage and speed), VDSL migration and pay TV growth (just 20% penetration but has doubled in the last three years). Valued at deep discounts to the sector on most valuation multiples, we believe OTE’s fundamental upside outweighs the near term political risks, though investors should be willing to bear with the volatility the latter may generate. We believe OTE will be a long term winner in a market where all of their competitors, with the exception of Vodafone, face severe financial constraints that should lead to more rational behaviour.

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|  |  |  |  |  |  |
| **OTE (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 4,330.3 | 4,054.1 | 3,920.2 | 3,898.0 | 3,962.2 |
| Net Income (€M) | 363.5 | 319.1 | 274.6 | 358.1 | 438.2 |
| Diluted EPS (€) | 0.74 | 0.65 | 0.56 | 0.73 | 0.89 |
| Diluted EPS (Old) (€) | 0.74 | 0.65 | 0.57 | 0.76 | 0.92 |
| PE (x) | 11.6 | 13.2 | 15.3 | 11.8 | 9.6 |
| EV/EBITDA (x) | 5.0 | 4.3 | 3.9 | 3.5 | 3.0 |
| DPS (€) | 0.00 | 0.00 | 0.21 | 0.29 | 0.36 |
| Net Div Yield (%) | 0.0 | 0.0 | 2.5 | 3.4 | 4.2 |

## Fundamentals improving, but elections may be looming

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| --- | --- | --- |
| Figure 106. Until lately OTE had been steadily outperforming the sector (left axis SFR/share; right axis index: end-06=100) |  | Figure 107. OTE trades above the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 108. Consensus EPS has been declining (SFr) |  | Figure 109. EBITDA consensus has lately been drifting down (SFrbn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

* **Election risk is high** —though the fundamentals of the story remain strong and OTE’s valuation is the most compelling in the sector, we believe there are significant negative risks in the near term from potential political risk. By February 2015, the tenure of the current president expires and the parliament will be called to elect a new president. It requires 180 of 300 MPs to support the appointment for it to be successful. Failure to reach that threshold will lead to early elections. That coupled with polls showing Syriza (Radical left) ahead in the polls will likely continue to raise concerns for the market. However, we also see that Syriza is unlikely to win outright majority (even if it maintains its lead, which is not a given), while it remains firmly against an exit from the Eurozone (with c.80% of Greeks supporting the country remaining in the Euro). We believe the real risk may be manageable, but the market could nonetheless overreact to any negative developments on this front.

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| Figure 110. Compared to its incumbent and its wireless peers in Europe, OTE trades at or above the upper quartile on our 2014 and 2015 estimates  SFr/share |
|  |
| Source: DataCentral, Citi Research |

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| Figure 111. OTE forecasts  €m except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 4,330 | 4,054 | 3,920 | 3,898 | 3,962 | 4,035 | 4,122 | | *growth, yoy* | (14.1%) | (6.4%) | (3.3%) | (0.6%) | 1.6% | 1.8% | 2.2% | | Operating costs | (2,937) | (2,876) | (2,537) | (2,455) | (2,452) | (2,453) | (2,483) | | *growth, yoy* | (13.0%) | (2.1%) | (11.8%) | (3.2%) | (0.1%) | 0.0% | 1.3% | | **EBITDA** | **1,393** | **1,178** | **1,383** | **1,443** | **1,510** | **1,582** | **1,639** | | *growth, yoy* | (16.2%) | (15.4%) | 17.5% | 4.3% | 4.6% | 4.8% | 3.6% | | *margin* | *32.2%* | *29.1%* | *35.3%* | *37.0%* | *38.1%* | *39.2%* | *39.8%* | |  |  |  |  |  |  |  |  | | EBIT | 615 | 339 | 550 | 629 | 696 | 768 | 825 | | **Net income** | **364** | **319** | **275** | **358** | **438** | **517** | **560** | | EPS | 0.74 | 0.65 | 0.56 | 0.73 | 0.89 | 1.05 | 1.14 | | ***Consensus EPS*** | ***0.74*** | ***1.15*** | ***0.62*** | ***0.72*** | ***0.82*** | ***0.89*** | ***0.91*** | | DPS | 0.00 | 0.00 | 0.21 | 0.29 | 0.36 | 0.42 | 0.46 | | ***Consensus DPS*** | ***0.00*** | ***0.00*** | ***0.26*** | ***0.37*** | ***0.45*** | ***0.53*** | ***0.75*** | |  |  |  |  |  |  |  |  | | Capex | (560) | (486) | (550) | (600) | (603) | (613) | (580) | | of which: spectrum | (59) | (130) | (120) | 0 | 0 | 0 | 0 | | FCF pre min divs | 628 | 606 | 473 | 488 | 628 | 738 | 816 | | **FCF post min divs** | **628** | **606** | **473** | **488** | **628** | **738** | **816** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **2,889** | **1,512** | **1,219** | **836** | **351** | **(212)** | **(821)** | | Net debt/EBITDA | 2.1x | 1.3x | 0.9x | 0.6x | 0.2x | (0.1x) | (0.5x) | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Greek general election by February 2015:** The Greek parliament will be called to elect a new president by the end of December. The election requires supermajority in the parliament of 180 seats out of 300. The two coalition parties currently control 155 seats, so other independent MPs and parties will need to support the nomination to guarantee success. Failure to elect a new president will mean the government falls and we go to early elections. Currently, the radical left (Syriza) is ahead in the polls, but with many votes still saying they are undecided.
* **Nova counteroffer?:** OTE made an offer to Forthnet to acquire its pay TV business (NOVA) in the summer. Vodafone/ Wind have also offered to buy the entire business. In the meantime, Nova lost the UEFA rights to OTE. We expect more clarity in the coming months. In our view, OTE will have to either improve its initial €250-300m offer or walk away.
* **Romtel minority stake?:** OTE has also said on multiple conference calls that it is interested in acquiring Romanian’s minority stake in Romtel. OTE plans to have full ownership, so that it can then pursue other transaction to consolidate and repair the market. We believe that the potential for these deals will limit OTE’s willingness to distribute a generous dividend, particularly in light of the political uncertainty.

## Valuation

We value OTE using a DCF-based valuation of its individual segments. We believe OTE has one of the best EBITDA to OpFCF conversions in the sector and has scope for medium term growth, after years of falling demand in Greece are coming to an end. We see near term risk from the political uncertainty in Greece as a catalyst for potential divergence from OTE’s fundamental valuation.

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| --- |
| Figure 112. OTE’s SoP valuation (€m) |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | **Stake (%)** | **EV** | **/ Share** | **As a % of** | **2014E** |  | |  |  |  | **Value** | **Group EV** | **EV/EBITDA** | **EV/OpFCF** | |  |  |  |  |  |  |  | | Greek Fixed | 100% | 4,052 | 8.3 | 45% | 7.0x | 11.5x | | Greek mobile | 100% | 3,350 | 6.8 | 38% | 7.5x | 11.3x | | Romanian mobile | 86% | 663 | 1.4 | 7% | 7.0x | 13.5x | | Albanian mobile | 95% | 157 | 0.3 | 2% | 5.0x | 10.7x | | Romanian fixed | 54.0% | 506 | 1.0 | 6% | 5.5x | 12.3x | | Other | 100.0% | 198 | 0.4 | 2% | 4.0x | 5.0x | | **Total Consolidated Assets** |  | **8,927** | **18.2** | **100%** |  |  | |  |  |  |  |  |  |  | | **Group Enterprise Value** |  | **8,927** | **18.2** |  |  |  | | Less Net Debt 2014 |  | - 1,198 | - 2 | - 0 |  |  | | Other liabilities |  | - 400 |  |  |  |  | | **Group Equity Value** |  | **7,329** | **15.0** | **82.1%** |  |  | | Shares outstanding (m) |  | 490 |  |  |  |  | | **Per share valuation** |  | **14.95** |  |  |  |  | |
| Source: Citi Research |

Swisscom

## Solid and consistent

* Company Update

|  |
| --- |
| Georgios Ierodiaconou |
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| georgios.ierodiaconou@citi.com |
|  |

|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | SFr570.00 |
| Target price | SFr640.00 |
| *from SFr600.00* |  |
| Expected share price return | 12.3% |
| Expected dividend yield | 3.9% |
| **Expected total return** | 16.1% |
| Market Cap | SFr29,527M |
|  | US$30,625M |

|  |
| --- |
| Price Performance (RIC: SCMN.VX, BB: SCMN VX) |
|  |

* **Stable, despite headwinds** — Swisscom is annualizing tough comps as the Infinity migration was already contributing to significant ARPU accretion from 2H13 onwards, limiting mobile service revenue growth. In fixed, the FttH uptake is improving but is still in early stages to drive the performance of the domestic business. While the migration to Cloud TV is costly, as Swisscom does not change a premium, but incurs the cost of replacing the equipment (set top boxes), which is expensed and drives the higher SAC/SRCs. We believe Swisscom’s EBIOTDA trends may also be impacted in the coming two quarters by the launch of the iPhone 6, which should lead to higher levels of subsidies in mobile, with the ARPU benefit likely to become more visible in the medium term.
* **Big Investment cycle to start yielding returns:** FttH rollouts do not come more expensive than Switzerland, but the high cost means a unique network (no competing FttH infrastructure, unlike other countries like Spain, Portugal, Sweden etc). Swisscom is yet to monetize the billions invested in the network upgrade, but as the product becomes available in more countries, we believe it is posed to do so.
* **Fastweb inflecting:** Significant gains in market share in recent years were not visible on the financial because of the ongoing decline in the overall market. As the market decline moderates, the FttC migration accelerates and market share gains continue, Fastweb should start to benefit from revenues growth and lower ULL fees (sub loop unbundling saves €2.5/month per customer). We see Fastweb as the main beneficiary of any in market consolidation in mobile, as the most likely remedy in a capacity MVNO role, which could add considerable medium term value.
* **Reiterate Buy/ t/p increased to CHF640/share** —We see Swisscom as a structural winner in the sector, with best in class execution and delivery. The strategy to prepare for a data tsunami in both fixed and mobile through consistent and elevated investment levels has been vindicated but is yet to be given full credit. The upselling potential is grossly underestimated by those that see Swisscom as a stable rather than growing business. The investment cycle is at its peak, unlike other incumbents that are still preoccupied with FttC deployments, which Swisscom completed (90% of the country) in 2011. Despite near terms headwinds, we reiterate our Buy rating on Swisscom and raise our DCF-based price target to CHF640/share from CHF600/share, to reflect the improved prospects in Italy and the overall re-rating of the sector. We also make minor changes to our estimates based on the impact of iPhone 6 sales to margins in 4Q14 and 1H15

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| **Swisscom AG (CHF)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (SFrM) | 11,384.0 | 11,434.0 | 11,645.0 | 11,822.7 | 12,040.7 |
| Net Income (SFrM) | 1,762.0 | 1,695.0 | 1,778.2 | 1,908.1 | 2,002.8 |
| Diluted EPS (SFr) | 34.01 | 32.72 | 34.33 | 36.84 | 38.66 |
| Diluted EPS (Old) (SFr) | 34.01 | 32.72 | 34.47 | 36.60 | 37.92 |
| PE (x) | 16.8 | 17.4 | 16.6 | 15.5 | 14.7 |
| EV/EBITDA (x) | 8.5 | 8.7 | 8.5 | 8.1 | 7.7 |
| DPS (SFr) | 22.00 | 22.00 | 22.00 | 23.00 | 24.00 |
| Net Div Yield (%) | 3.9 | 3.9 | 3.9 | 4.0 | 4.2 |

## Solid and consistent

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| Figure 113. Until lately Swisscom had been steadily outperforming the sector (left axis SFR/share; right axis index: end-06=100) |  | Figure 114. Swisscom trades above the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 115. Consensus EPS has been declining (SFr) |  | Figure 116. EBITDA consensus has lately been drifting down (SFrbn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

* **Cloud is the gateway to upselling:** We believe that Swisscom’s ‘generocity’ in offering a far superior TV experience through Cloud at NIL PREMIUM despite the costs of substitution the set top boxes comes at a cost in the medium term. By encouraging customers to change behavior in TV viewing, we believe Swisscom will foster demand for higher bandwidth both in fixed and mobile. With the upselling of fibre to the base at CHF30/month in fixed and tiered data speeds in mobile, Swisscom is likely to monetize these investments through aggressive upselling in the coming years.

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| Figure 117. Compared to its incumbent and its wireless peers in Europe, Swisscom trades at or above the upper quartile on our 2014 and 2015 estimates  SFr/share |
|  |
| Source: DataCentral, Citi Research |

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| --- |
| Figure 118. Swisscom forecasts  SFrm except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 11,384 | 11,434 | 11,645 | 11,823 | 12,041 | 12,257 | 12,499 | | *growth, yoy* | (0.7%) | 0.4% | 1.8% | 1.5% | 1.8% | 1.8% | 2.0% | | Operating costs | (7,003) | (7,132) | (7,228) | (7,234) | (7,286) | (7,354) | (7,433) | | *growth, yoy* | 1.7% | 1.8% | 1.4% | 0.1% | 0.7% | 0.9% | 1.1% | | **EBITDA** | **4,381** | **4,302** | **4,417** | **4,588** | **4,754** | **4,904** | **5,066** | | *growth, yoy* | (4.4%) | (1.8%) | 2.7% | 3.9% | 3.6% | 3.1% | 3.3% | | *margin* | *38.5%* | *37.6%* | *37.9%* | *38.8%* | *39.5%* | *40.0%* | *40.5%* | |  |  |  |  |  |  |  |  | | EBIT | 2,431 | 2,258 | 2,371 | 2,505 | 2,636 | 2,758 | 2,881 | | **Net income** | **1,762** | **1,695** | **1,778** | **1,908** | **2,003** | **2,088** | **2,199** | | EPS | 34.01 | 32.72 | 34.33 | 36.84 | 38.66 | 40.31 | 42.44 | | ***Consensus EPS*** | ***33.88*** | ***32.53*** | ***32.82*** | ***33.02*** | ***33.44*** | ***32.99*** | ***32.50*** | | DPS | 22.00 | 22.00 | 22.00 | 23.00 | 24.00 | 24.00 | 24.00 | | ***Consensus DPS*** | ***22.00*** | ***22.00*** | ***22.00*** | ***22.60*** | ***23.36*** | ***23.62*** | ***23.87*** | |  |  |  |  |  |  |  |  | | Capex | (2,536) | (2,417) | (2,413) | (2,339) | (2,363) | (2,288) | (2,242) | | of which: spectrum | (12) | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 1,473 | 1,471 | 1,287 | 1,584 | 1,687 | 1,916 | 2,159 | | **FCF post min divs** | **1,473** | **1,471** | **1,287** | **1,584** | **1,687** | **1,916** | **2,159** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **8,448** | **8,307** | **8,203** | **7,677** | **7,147** | **6,484** | **5,706** | | Net debt/EBITDA | 1.9x | 1.9x | 1.9x | 1.7x | 1.5x | 1.3x | 1.1x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **New telecom reforms:** The federal council has adopted a report to change the telecom policy. There are a number of proposals in place that will be debated and finalized in the coming years. We expect some obvious changes to the pricing of some services (roaming being one of them), but a more fundamental change is likely to be time consuming (Swisscom sees 2017 at the earliest) and debatable (government wants to wait before it enacts any changes to access regulation so that it does not compromise investments in new networks).
* **Swisscom’s FY results on 8th of February:** Swisscom typically gives conservative outlook, with flat dividends and focus on the challenges of investment. That has typically proved to be a negative event for the stock, but less so in recent years as the management has established credibility as one of the few telcos to meet guidance consistently and even exceed it (as was case in 2014 when the guidance was revised upwards at 2Q14). We see higher SAC on the iPhone 6 launch as an additional headwind.
* **Sunrise IPO?:** According to press reports (September 25th), CVC partners is again considering the option to IPO Sunrise (#2 mobile operator with limited fixed services). We believe the Swiss market is rational and benign and do not expect messages from Sunrise to adversely impact the market’s perception of Swisscom.

## Valuation

We value Swisscom using ROCE-fade DCF analysis, which we then allocate between the different divisions in the group. We value the domestic business at 9.3x EV/EBITDA, with the premium largely driven by the lower corporate tax rate and lower cost of capital (we use a conservative WACC of 6.5%; though 10-year bond yields stand at c.1.5%). We believe Swisscom’s domestic growth in a country with no inflation and low regulatory risk make its valuation compelling at current levels. We value Fastweb at 7.0x 2015E EBITDA, but could see upside in the event of an acquisition of the asset by Vodafone. We increase our price target to CHF640 and retain our Buy rating.

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| Figure 119. Swisscom’s SoP valuation table (CHFm) |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | **Stake (%)** | **Enterprise Value** | **Per Share Value** | **As a % of** | **2015E** | |  |  | **(SFr m)** | **(SFr)** | **Group EV** | **EV/EBITDA** | | Swisscom Switzerland | 100% | 33,973 | 656 | 83.3% | 9.3x | | Fastweb | 100% | 4,657 | 90 | 11.4% | 7.0x | | Other Assets/ corporate/ elim | 100% | 2,161 | 42 | 5.3% | 8.0x | | **Total Consolidated Assets** |  | **40,791** | **788** | **100.0%** |  | |  |  |  |  |  |  | | **Group Enterprise Value** |  | **40,791** | **788** |  | 8.9x | | 2014E Net Debt |  | 7,440 | 144 | 18.2% |  | | **Group Equity Value** |  | **33,352** | **644** |  |  | |
| Source: Citi Research |

TDC

## Quantifying the benefits from consolidation

* Company Update

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|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | Dkr46.63 |
| Target price | Dkr50.00 |
| Expected share price return | 7.2% |
| Expected dividend yield | 7.9% |
| **Expected total return** | 15.2% |
| Market Cap | Dkr37,864M |
|  | US$6,339M |

|  |
| --- |
| Price Performance (RIC: TDC.CO, BB: TDC DC) |
|  |

* **Awaiting the remedy decision from the regulator** — Long awaited Danish consolidation recently came through as TeliaSonera and Telenor entered into an agreement to merge their Danish operations into a new joint venture. That means that the Danish market moves to two large players and H3G at 14% share. H3G has been the player that has been bringing down prices and this is unlikely to completely change its incentive to push for market share gains. However, we welcome the market repair, which is likely to support TDC market moves, at least we get regulatory remedy decisions that are deemed otherwise.
* **Upside from fixed regulatory decisions** — Earlier this year, TDC surprised the market by announcing harsher than expected wholesale regulation on LRAIC prices. However, it is encouraging that the final wholesale prices (announced in Dec 2014) were slightly better than expected. TDC has for now maintained its guidance for the impact of regulation in the next two years (DKK 200-300m in 2015 and DKK 300-400m in 2016), however we expect these to be tweaked together with FY results.
* **Wireline inflation continues** — TDC’s fixed revenues benefited from pricing increases implemented in the summer and are due another set of price rises in January 2015. The KPIs have not deteriorated, but remain flat for most services. That is the best TDC can deliver given the markets (voice, TV and broadband) are mature and its market shares at risk (regulation, OTT) in the medium term.
* **Buy price target of DKK 50** — Despite Post TDC’s rally post the consolidation news, valuation screens as attractive enough. We do not believe mobile market consolidation can solve the price pressure in Danish mobile, but see relative resilience in the rest of the business and cost control as offsetting factors. We believe TDC’s FCF generation will also be supported by lower tax payments from 2015 onwards.

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|  |  |  |  |  |  |
| **TDC (DKK)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (DkrM) | 26,116.0 | 23,986.0 | 23,301.0 | 24,966.2 | 24,919.6 |
| Net Income (DkrM) | 3,564.0 | 2,485.0 | 3,095.6 | 3,225.8 | 3,189.9 |
| Diluted EPS (Dkr) | 4.42 | 3.11 | 3.87 | 4.04 | 3.99 |
| Diluted EPS (Old) (Dkr) | 4.42 | 3.11 | 3.87 | 4.04 | 3.99 |
| PE (x) | 10.5 | 15.0 | 12.0 | 11.5 | 11.7 |
| EV/EBITDA (x) | 5.9 | 6.1 | 6.9 | 6.9 | 6.9 |
| DPS (Dkr) | 4.60 | 3.70 | 2.50 | 2.50 | 2.75 |
| Net Div Yield (%) | 9.9 | 7.9 | 5.4 | 5.4 | 5.9 |

## Quantifying the benefits from consolidation

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| Figure 120. TDC has now given up most of its outperformance that had started in mid-2012 (left axis €/share; right axis index: end-2006=100) |  | **Figure 121. TDC trades well below the sector average PE (1 year forward)** |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 122. Consensus EPS recently fairly stable (€) |  | Figure 123. EBITDA consensus lately looks to have stabilised after a period of decline (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 124. Compared to its incumbent and wireless peers in Europe, TDC trades around the lower quartile on post tax metrics on our 2015 and 2016 estimates  €/share |
|  |
| Source: Powered by dataCentral |

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| Figure 125. TDC Forecasts  DKKm except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 26,116 | 23,986 | 23,301 | 24,966 | 24,920 | 25,047 | 25,239 | | *growth, yoy* | (0.7%) | (8.2%) | (2.9%) | 7.1% | (0.2%) | 0.5% | 0.8% | | Operating costs | (15,796) | (14,007) | (13,561) | (14,641) | (14,733) | (14,830) | (14,928) | | *growth, yoy* | (0.1%) | (11.3%) | (3.2%) | 8.0% | 0.6% | 0.7% | 0.7% | | **EBITDA** | **10,320** | **9,979** | **9,740** | **10,325** | **10,186** | **10,217** | **10,311** | | *growth, yoy* | (1.6%) | (3.3%) | (2.4%) | 6.0% | (1.3%) | 0.3% | 0.9% | | *margin* | *39.5%* | *41.6%* | *41.8%* | *41.4%* | *40.9%* | *40.8%* | *40.9%* | |  |  |  |  |  |  |  |  | | EBIT | 5,296 | 5,147 | 4,923 | 5,498 | 5,333 | 5,348 | 5,443 | | **Net income** | **3,564** | **2,485** | **3,096** | **3,226** | **3,190** | **3,276** | **3,411** | | Basic EPS | 4.42 | 3.11 | 3.87 | 4.04 | 3.99 | 4.10 | 4.27 | | ***Consensus EPS*** | ***4.05*** | ***4.70*** | ***4.11*** | ***3.87*** | ***4.02*** | ***4.37*** | ***4.52*** | | DPS | 4.60 | 3.70 | 2.50 | 2.50 | 2.75 | 3.00 | 3.22 | | ***Consensus DPS*** | ***4.60*** | ***3.70*** | ***2.69*** | ***2.68*** | ***2.83*** | ***3.03*** | ***3.13*** | |  |  |  |  |  |  |  |  | | Capex | (3,606) | (3,690) | (3,787) | (4,088) | (4,058) | (3,963) | (3,804) | | of which: spectrum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 4,045 | 2,709 | 3,915 | 3,558 | 3,687 | 3,933 | 4,226 | | **FCF post min divs** | **4,045** | **2,709** | **3,915** | **3,558** | **3,687** | **3,933** | **4,226** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **22,971** | **22,317** | **33,516** | **31,755** | **30,165** | **28,529** | **26,789** | | Net debt/EBITDA | 2.2x | 2.2x | 3.4x | 3.1x | 3.0x | 2.8x | 2.6x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Danish regulator and EU to decide on remedies for the Telenor/Telia JV**The Telia/Telenor JV we expect will qualify for review in Brussels, given that Telia and Telenor have over 1/3 of EU based revenues coming from other markets. We expect a lengthy process before we get a final decision that could last until the end of 2015, given it is likely to be pushed to Phase II.
* **Further clarity on Get financials, expected to be published with before Q4** We recognize the market’s concerns over the change in TDC’s investment case and further transparency on Get would build further confidence with investors.
* **Larger government contracts up for renegotiations (late 2015)**Currently a large contract sits with Nianet, however TDC could potentially win this back as they have been helping Nianet provide services.
* **Danish corporate tax rate to come down**The Danish tax rate is set to fall from 25% in 2013 to 22% by 2016, which will benefit both the P&L and cash tax payments. Furthermore TDC has been paying higher cash vs P&L taxes in the past, largely due to disputes with authorities that relate to prior years of tax payments (some during ownership by private-equity). TDC is unlikely to be called to pay additional taxes that relate to these disputes from 2015 onwards.
* **Danish MTR cut (expected in Jan 2015).**

Tele2

## **Solid trends, but M&A still inflated in our view**

* Company Update

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| --- |
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| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | SKr92.55 |
| Target price | SKr90.00 |
| Expected share price return | -2.8% |
| Expected dividend yield | 4.8% |
| **Expected total return** | 2.0% |
| Market Cap | SKr41,227M |
|  | US$5,463M |

|  |
| --- |
| Price Performance (RIC: TEL2b.ST, BB: TEL2B SS) |
|  |

* **We expect continued impressive domestic trends** — Tele2 has this year emerged as the winner in Swedish mobile, with Tele2’s customer base is better suited to the upselling cycle (typically lower ARPU, later adopters than for Telia and Telenor) and we expect this trend to continue next year, helped by the further migration to the bigger screened 4G enabled iPhone 6. In addition, Tele2 recently announced a partnership with Viaplay, in order to boost video usage further. We forecast mobile revenue growth at +3.0%, slightly above consensus (cons gathered post 3Q).
* **Upside also from domestic B2B** — Tele2 is also reporting excellent trends in the B2B market, building up its brand name mainly in the SOHO and SME segments. Market-share gains are clearly in play here and the performance may require further inroads in the enterprise segment, while Tele2 may also have to weather Telia’s new defensive strategies in B2B (expected in February 2015).
* **Awaiting the 4G launch in the Netherlands** —KPN on the 3Q call stated that “they have no plans to acquire Tele2” and Tele2 recently confirmed that they will launch in the beginning of 2015 (customers to start using 4G by March), hinting they will have an aggressive strategy with a >20% market share ambition. Despite the many management changes at Tele2 Netherlands, they have reported good progress regarding the network build out, targeting 100% 4G coverage by end 2016. We believe that there is still room for Tele2 to undercut market prices, especially on 4G, where competing firms currently charge at a premium. Tele2 have acquired strong net adds in mobile so far this year and we would see a positive read-across from VOD/LIB deal, where Ziggo/UPC would probably not disrupt the mobile market to the same extent.
* **Reiterate Neutral, price target of SEK90** —Tele2’s valuation is attractive peculiarly set against superior growth in Swedish mobile and solid FCF conversion (lower than average capex to sales due to the JV structure, which means part of the investment is expensed). We believe the mid-single digit service revenue growth delivered in the base should be enough to drive margin expansion in the medium term. However, the broader portfolio carries significant execution risk and there could be disappointment if the strategic value in the Netherlands does not materialize in the near term, if the Norwegian Telia/Tele2 deal doesn’t go through or if the competition intensifies in Kazakhstan (new comer ALTEL is likely to drive ARPU dilution in the medium term). With the stock still inflated by M&A, valuation screens as expensive on most metrics.

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|  |  |  |  |  |  |
| **Tele2 AB (SEK)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (SKrM) | 43,726.0 | 25,757.0 | 25,461.2 | 26,471.7 | 27,222.7 |
| Net Income (SKrM) | 4,054.0 | 1,817.0 | 1,989.2 | 1,806.2 | 2,409.1 |
| Diluted EPS (SKr) | 9.06 | 4.05 | 4.44 | 4.03 | 5.37 |
| Diluted EPS (Old) (SKr) | 9.06 | 4.05 | 4.44 | 4.03 | 5.37 |
| PE (x) | 10.2 | 22.8 | 20.9 | 23.0 | 17.2 |
| EV/EBITDA (x) | 4.5 | 8.2 | 7.9 | 7.7 | 6.6 |
| DPS (SKr) | 7.10 | 4.40 | 4.70 | 5.20 | 5.70 |
| Net Div Yield (%) | 7.7 | 4.8 | 5.1 | 5.6 | 6.2 |

## **Solid trends, but M&A still inflated in our view**

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| --- | --- | --- |
| Figure 126. Tele2 has outperformed the sector in 2014 (left axis/share; right axis index; end-06=100) |  | Figure 127. Tele2 now trades in-line with the sector on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 128. Consensus EPS has stabilised (SEK) |  | Figure 129. EBITDA consensus also stable (SEKbn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| --- |
| Figure 130. Compared to its incumbent and wireless peers in Europe, Tele2 trades at a premium on most metrics on our 2015 and 2016 estimates  SEK/share |
|  |
| Source: Powered by dataCentral, Citi Research |

|  |
| --- |
| Figure 131. Tele2 forecasts  SEKm except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 43,726 | 25,757 | 25,461 | 26,472 | 27,223 | 27,228 | 27,561 | | *growth, yoy* | 7.3% | (41.1%) | (1.1%) | 4.0% | 2.8% | 0.0% | 1.2% | | Operating costs | (32,766) | (19,767) | (19,612) | (20,776) | (20,913) | (20,455) | (20,557) | | *growth, yoy* | 9.6% | (39.7%) | (0.8%) | 5.9% | 0.7% | (2.2%) | 0.5% | | **EBITDA** | **10,960** | **5,990** | **5,849** | **5,696** | **6,309** | **6,773** | **7,005** | | *growth, yoy* | 1.0% | (45.3%) | (2.3%) | (2.6%) | 10.8% | 7.3% | 3.4% | | *margin* | *25.1%* | *23.3%* | *23.0%* | *21.5%* | *23.2%* | *24.9%* | *25.4%* | |  |  |  |  |  |  |  |  | | EBIT | 6,218 | 2,643 | 3,176 | 3,095 | 3,649 | 4,059 | 4,257 | | **Net income** | **4,054** | **1,817** | **1,989** | **1,806** | **2,409** | **2,722** | **2,887** | | Basic EPS | 9.12 | 4.08 | 4.47 | 4.05 | 5.41 | 6.11 | 6.48 | | ***Consensus EPS*** | ***8.55*** | ***4.50*** | ***4.76*** | ***4.97*** | ***5.57*** | ***6.24*** | ***7.00*** | | DPS | 7.10 | 4.40 | 4.70 | 5.20 | 5.70 | 6.20 | 6.70 | | ***Consensus DPS*** | ***7.10*** | ***4.40*** | ***4.69*** | ***4.92*** | ***5.21*** | ***5.90*** | ***6.20*** | |  |  |  |  |  |  |  |  | | Capex | (4,609) | (5,241) | (3,595) | (2,957) | (2,986) | (2,970) | (2,783) | | of which: spectrum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 4,070 | 572 | 1,002 | 1,778 | 2,636 | 3,018 | 3,404 | | **FCF post min divs** | **4,070** | **572** | **1,002** | **1,778** | **2,636** | **3,018** | **3,404** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **15,745** | **8,007** | **8,171** | **3,354** | **3,066** | **2,680** | **2,153** | | Net debt/EBITDA | 1.4x | 1.3x | 1.4x | 0.6x | 0.5x | 0.4x | 0.3x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Norwegian regulator to decide on remedies for Telia/Tele2 merger** – Norway's competition authority announced they may block Telia's proposed acquisition of Tele2 in Norway, citing fears that with just two main operators in the country, consumers will face higher prices. Final decision expected on the 22nd of January 2015.
* **Tele2 mobile network launch by beginning of next year** – Tele2 confirmed that they will launch at the beginning of next year (customers will have access in March). A hard launch is set to follow later when achieved 100% coverage, targeted for end 2016.
* **Telia plans to launch new B2B services in February 2015**, focused on SOHO and SME segments.
* **Further announcements regarding the potential Vodafone/Liberty deal.** We believe in the case of the deal going through, Ziggo/UPC would probably not disrupt the mobile market to the same extent.

Telecom Italia

## Earnings risk prevails

* Company Update

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| **Sell** | **3** |
| Price (12 Dec 14) | €0.91 |
| Target price | €0.60 |
| Expected share price return | -34.4% |
| Expected dividend yield | 0.0% |
| **Expected total return** | -34.4% |
| Market Cap | €16,660M |
|  | US$20,762M |

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| Price Performance (RIC: TLIT.MI, BB: TIT IM) |
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* **Beyond the earnings gap** — As we highlighted in ‘[Telecom Italia: Mind the (Earnings) Gap’](https://www.citivelocity.com/rendition/eppublic/documentService/ZG9jX2lkPTUzNjIwOSZwdWJJZD0xNzU4NjM4JmFzc2V0Q2xhc3M9Q09NUEFOWSxFUVVJVFkmY2hhbm5lbD1EQ00mc3ViLWNoYW5uZWw9RW1haWwmcGFyZW50X2RvY19pZD01NDIyMzE#/), we believe TI’s earnings and FCF capacity is significantly weaker than perceived by the market, as financial expenses are c.€450m higher than the headline cash interest expenses. The gap is mainly due to cash related expenses that are either recognized as working capital outflow or accrued and accumulate for later settlement (specifically relating to TI’s hedging liabilities). We also concluded that TI’s true leverage and valuation metrics are far more stretched than perceived by the market. We expect TI will generate less than €600m of recurring FCF in 2015, falling to <€500m in 2016. We believe the new three year plan could call for even higher investment levels than we reflect in our estimates.
* **Opex slowdown:** After years of impressive cost cutting and a year with exceptional benefits in 2014, we see limited room for cost cutting to continue to mitigate for the top line weakness. Therefore, even though we see more moderate revenue decline in 2015/16, we expect EBITDA will continue to be under pressure in the medium term. We also see risk of higher capex as TI tries to introduce and push new services.
* **Brazil sale highly uncertain:** Even though a potential exit from Brazil has been widely speculated, TI remains committed to the asset or to an exit at a compelling valuation. We believe it is unlikely that Oi will have the financial flexibility to participate in a process to break up TIM at a price that could satisfy TI.
* **Reiterate Sell** — TI continues to face revenue erosion in the legacy revenues with only moderate growth in new services, particularly in fixed. We believe the group will fail to generate sufficient FCF to cover the interest on the savings shares and the clean-up costs of the Brazilian 700MHz spectrum, while EBITDA is likely to remain under pressure in the medium term, raising investment. Asset disposals, such as towers look good on headline leverage and EV based valuations, but tend to destroy value by diluting earnings and FCF: the rent yield is typically far higher than the interest expenses for almost any corporate in Europe, given the extraordinary conditions in the credit market.

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| **Telecom Italia SpA (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 29,503.0 | 23,407.0 | 21,696.9 | 20,756.8 | 20,341.0 |
| Net Income (€M) | 2,951.0 | 1,816.0 | 1,272.3 | 938.1 | 732.6 |
| Diluted EPS (¢) | 15.3 | 9.4 | 6.6 | 4.9 | 3.6 |
| Diluted EPS (Old) (¢) | 15.3 | 9.4 | 6.6 | 4.9 | 3.6 |
| PE (x) | 5.9 | 9.6 | 13.8 | 18.7 | 25.1 |
| EV/EBITDA (x) | 4.4 | 5.3 | 5.5 | 5.8 | 6.0 |
| DPS (¢) | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Div Yield (%) | 2.2 | 0.0 | 0.0 | 0.0 | 0.0 |

## Earnings risk prevails

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| Figure 132. TI ords have steadily underperformed the sector (left axis/€share; right axis index: end-06=100) |  | Figure 133. TI trades at a significant discount to the sector average on PE (1 year forward) |
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| Source: DataStream |  | Source: DataStream |
| Figure 134. Consensus EPS now fairly stable (€) |  | Figure 135. EBITDA consensus has lately been falling (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

* **Mobile improvement to continue** — there is no doubt that 3Q14 has shown a clear inflection in terms of mobile service revenues, with the decline moderating from -14.1% in 2Q to -8.6% in 3Q , ex incoming. Even though part of the improvement may prove difficult to sustain (particularly on content services), we believe there is room for further underlying improvement in the coming quarters and see -5.4% underlying (-4.8% reported) as feasible for 4Q14.
* **Fixed still in transition** —though the retail service revenues was somewhat improved, it is still declining by 7.1%, while the price increases on the access line are unlikely to have a lasting effect. TI is losing broadband lines (though mostly lower end customers), access line losses are running at -5.4%, while the voice traffic is in decline. We believe the fixed division (which is double the size of mobile in terms of revenues) as far from any signs of stabilization, as Fastweb (and to a lesser extent Vodafone) continue to gain material market share.

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| Figure 136. Compared to its incumbent and its wireless peers in Europe, TI typically trades around the lower quartile on our estimates |
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| Source: DataCentral, Citi Research |

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| Figure 137. Telecom Italia forecasts  €m except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 29,503 | 23,407 | 21,697 | 20,757 | 20,341 | 20,195 | 20,156 | | *growth, yoy* | (1.5%) | (20.7%) | (7.3%) | (4.3%) | (2.0%) | (0.7%) | (0.2%) | | Operating costs | (17,858) | (13,867) | (12,842) | (12,406) | (12,315) | (12,302) | (12,311) | | *growth, yoy* | 0.4% | (22.3%) | (7.4%) | (3.4%) | (0.7%) | (0.1%) | 0.1% | | **EBITDA** | **11,645** | **9,540** | **8,855** | **8,351** | **8,026** | **7,893** | **7,845** | | *growth, yoy* | (4.3%) | (18.1%) | (7.2%) | (5.7%) | (3.9%) | (1.7%) | (0.6%) | | *margin* | *39.5%* | *40.8%* | *40.8%* | *40.2%* | *39.5%* | *39.1%* | *38.9%* | |  |  |  |  |  |  |  |  | | EBIT | 1,926 | 2,718 | 4,499 | 4,019 | 3,734 | 3,616 | 3,575 | | **Net income** | **2,951** | **1,816** | **1,272** | **938** | **733** | **650** | **622** | | EPS | (8.46) | (5.27) | 4.31 | 4.87 | 3.62 | 3.07 | 2.94 | | ***Consensus EPS*** | ***12.00*** | ***8.00*** | ***7.00*** | ***7.20*** | ***7.50*** | ***8.00*** | ***8.00*** | | DPS | 2.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.00 | | ***Consensus DPS*** | ***2.00*** | ***0.00*** | ***1.20*** | ***1.30*** | ***1.40*** | ***2.70*** | ***6.00*** | |  |  |  |  |  |  |  |  | | Capex | (5,196) | (4,400) | (4,959) | (4,470) | (4,441) | (4,632) | (4,712) | | of which: spectrum | (250) | 0 | (531) | 0 | 0 | (80) | (80) | | FCF pre min divs | 3,325 | 2,341 | 1,284 | 685 | 686 | 584 | 564 | | **FCF post min divs** | **3,188** | **2,255** | **1,201** | **605** | **606** | **504** | **484** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **30,309** | **29,283** | **29,589** | **29,283** | **27,665** | **27,572** | **27,645** | | Net debt/EBITDA | 2.6x | 3.1x | 3.3x | 3.5x | 3.4x | 3.5x | 3.5x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Brazilian consolidation?:** After more than a year of speculation that TIM would be broken up by the three other MNOs in the market, a tangible offer has not yet been finalized. In August, Oi hired BTG Pactual to act as an intermediary with the view of making an offer for TI’s stake in TIM Brasil. Subsequently, Oi has also managed to reach an agreement to enter exclusive negotiations with Altice for the disposal of PT Portugal. Despite this, we believe that Oi’s cash burn run rate as well as its declining EBITDA will make leverage difficult to contain.
* **Italian consolidation?:** Another acquisition that has been widely discussed in the press over the last few years but is yet to materialize is the one between H3G and Wind in Italy. There is strong industrial logic in bringing the two businesses together, but so far a deal has proved elusive. We believe a deal is unlikely in the near term as negotiations have reportedly stalled, but we see potential for a deal in the medium term. We view any deal as slightly negative for the incumbent operators, as we expect similar concessions with those demanded in Germany, ie. the introduction of a capacity MVNO. We believe Fastweb is the most likely party to benefit from a capacity MVNO deal, with significant disruptions to the pricing of the mobile market as it gains share in order to utilize the capacity. In addition, Fastweb is a broadband operator, unlike Drillisch in Germany it does not need to make a return in mobile, but rather mobile discounts to gain market share in broadband.

**Valuation**

TI is perceived to be cheap by the market, trading at a significant discount to the sector on headline EV/EBITDA multiples, especially if a sale of TIM Brasil materializes at a premium valuation. TI also looks attractive on simple EV/OpFCF (EBITDA-Capex) metrics vs the sector, though that is partly down to underinvestment vs the peer group, which could correct from 2015 onwards. However, the picture looks less clear if the additional liabilities are taken into account and added to the company’s EV calculations. We believe that at least the €1.5bn of hedging derivatives have to be included, if anything to make comparisons even. In addition to this, we believe that TI’s valuation of earnings and true FCF yield (which capture other consistent outflows to other related items) is more representative. On these metrics, TI trades on significant premiums to the sector: 21x 2015E earnings; 3.0% FCF yield in our numbers.

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| Figure 138. Telecom Italia’s Sum of Parts valuation (€m) |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Asset** | **Stake** | **EV** | **Net (debt)** | **Method** | **TI market value** | **Blended €/share** | | Italy (Fixed, Mobile, Sparkle, Media, Olivetti) | 100.0% | 34,254 | 0 | 5.2x 2015E EBITDA | 34,254 | 1.78 | | TIM Brazil | 66.27% | 10,654 | (172) | 6.0x 2015E EBITDA | 6,946 | 0.36 | | **Group EV** |  |  |  |  | **41,200** |  | |  |  |  |  |  |  |  | | Other net debt (2014E) |  |  | (25,914) |  | (25,914) | (1.34) | | Employee severance/other provisions |  |  |  |  | (1,721) | (0.09) | | Hybrid liabilities |  |  |  |  | (1,500) |  | | Other interest bearing liabilities |  |  |  |  | (1,250) |  | | **Equity value** |  |  |  |  | **10,815** |  | |  |  |  |  |  |  |  | | Implied blended per-share value |  |  |  |  | 0.56 |  | |  |  |  |  |  |  |  | | **Implied value per ordinary share** |  |  |  |  | **0.59** |  | | **Implied value per savings share** |  |  |  |  | **0.50** |  | |
| Source: Citi Research |

Telefónica

## Transformation lies on the balance sheet fix

* Company Update

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| **Neutral** | **2** |
| Price (12 Dec 14) | €12.46 |
| Target price | €11.50 |
| Expected share price return | -7.7% |
| Expected dividend yield | 3.2% |
| **Expected total return** | -4.5% |
| Market Cap | €58,029M |
|  | US$72,315M |

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| Price Performance (RIC: TEF.MC, BB: TEF SM) |
|  |

* **Forex headwinds…** — TEF’s balance sheet is at risk, especially as its high leverage is complemented by a ‘carry trade’ that leaves TEF’s ratios exposed to currency moves. The risk in Venezuela is higher than at any point in the past, with the oil price driving the parallel rate to <VEF170/$ vs TEF’s recognition under SICAD I at c.VEF11.5/$. A massive devaluation in Venezuela coupled with forex risks in other parts of the footprint could conspire to derail TEF’s recovery as leverage ratios are on the brink of breaching the company’s targets even if TEF deploys the full €7.5bn of hybrid capacity, which is generously treated as 100% equity under IFRS. In short, even as TEF is setting a target that it can control with hybrids, it may not be able to meet it.
* **…make the sale of assets core to investment case** — BT and TEF were in discussions over the potential sale of O2 UK, but BT decided to opt for an acquisition of EE and entered exclusive negotiations on December 15th. We believe that TEF needs a sale of the UK business to fix its balance sheet as organic options are not sufficient to cover the gap. A sale at the right price will not only add value, but also significantly reduce the tail risks involved with fixing the balance sheet, which we believe could take either another reduction in the cash element of the dividend or an outright capital raise. With BT opting for EE, there is no certainty over the disposal of the UK business to another party.
* **Transformation on track** — Spain is improving, albeit gradually and we would warn against expectations of stabilization in 2015, as the business and wholesale segments (50% of the revenues) will continue to be under pressure and margins are likely to see further dilution from the change in the revenue mix. LatAm is showing solid demand for mobile data and the acquisition of GVT would make Vivo the best placed operator in Brazil, to play convergence in the medium term. With consolidation in Brazil possible, there is scope for further optimism on the operational front, though we believe that may still not be reflected in reported terms in LatAm currencies see further weakness in 2015.
* **Neutral/ price target €11.5/share** — We believe the balance of near term risks re forex and leverage outweigh the good job the company has done to reposition the group for growth. We see TEF as an underperformer vs a resurgent EU telecom sector but see limited fundamental absolute downside. We make small changes to our forecasts on the back of 3Q14 results and recent corporate transactions. We see downside risk to TEF’s market valuation, but with the potential sale of O2UK to BT (as both parties confirmed they are in discussions) and other positive for sentiment developments in Mexican regulation, we see limited near term risk and await developments. We slightly lower our estimates for forex moves in LatAm and despite upward revision to German estimates.

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| **Telefónica SA (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 62,356.0 | 57,061.0 | 52,237.7 | 52,177.7 | 52,110.6 |
| Net Income (€M) | 4,246.0 | 5,003.4 | 3,486.7 | 2,485.8 | 2,668.0 |
| Diluted EPS (€) | 0.94 | 1.11 | 0.76 | 0.53 | 0.57 |
| Diluted EPS (Old) (€) | 0.94 | 1.11 | 0.77 | 0.55 | 0.58 |
| PE (x) | 13.2 | 11.3 | 16.5 | 23.3 | 21.7 |
| EV/EBITDA (x) | 5.4 | 5.9 | 6.8 | 7.2 | 7.1 |
| DPS (€) | 0.00 | 0.75 | 0.40 | 0.40 | 0.40 |
| Net Div Yield (%) | 0.0 | 6.0 | 3.2 | 3.2 | 3.2 |

## Transformation lies on the balance sheet fix

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| Figure 139. Telefónica has lately been underperforming the sector (left axis/share; right axis index: end-06=100) |  | Figure 140. Telefonia trades slightly below the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 141. Consensus EPS has fallen sharply (€) |  | Figure 142. EBITDA consensus has been heading down (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 143. Compared to its incumbent and its wireless peers in Europe, Telefónica trades at or below the median on our 2014 and 2015 estimates  (€/share) |
|  |
| Source: DataCentral, Citi Research |

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| Figure 144. Telefónica forecasts  €m except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 62,356 | 57,061 | 52,238 | 52,178 | 52,111 | 52,687 | 53,736 | | *growth, yoy* | (0.8%) | (8.5%) | (8.5%) | (0.1%) | (0.1%) | 1.1% | 2.0% | | Operating costs | (41,263) | (37,984) | (35,688) | (36,327) | (36,198) | (36,482) | (37,082) | | *growth, yoy* | 1.5% | (7.9%) | (6.0%) | 1.8% | (0.4%) | 0.8% | 1.6% | | **EBITDA** | **21,093** | **19,077** | **16,550** | **15,850** | **15,913** | **16,205** | **16,654** | | *growth, yoy* | (4.9%) | (9.6%) | (13.2%) | (4.2%) | 0.4% | 1.8% | 2.8% | | *margin* | *33.8%* | *33.4%* | *31.7%* | *30.4%* | *30.5%* | *30.8%* | *31.0%* | |  |  |  |  |  |  |  |  | | EBIT | 10,660 | 9,450 | 7,622 | 6,244 | 6,428 | 6,824 | 7,370 | | **Net income** | **4,246** | **5,003** | **3,487** | **2,486** | **2,668** | **2,899** | **3,140** | | EPS | 0.87 | 1.02 | 0.69 | 0.48 | 0.53 | 0.58 | 0.63 | | ***Consensus EPS*** | ***1.41*** | ***0.99*** | ***0.85*** | ***0.89*** | ***0.98*** | ***1.03*** | ***0.92*** | | DPS | 0.00 | 0.75 | 0.40 | 0.40 | 0.40 | 0.41 | 0.44 | | ***Consensus DPS*** | ***0.73*** | ***0.73*** | ***0.70*** | ***0.72*** | ***0.70*** | ***0.79*** | ***0.81*** | |  |  |  |  |  |  |  |  | | Capex | (9,458) | (9,140) | (9,056) | (8,602) | (7,541) | (8,211) | (7,513) | | of which: spectrum | (586) | (1,499) | (1,065) | (1,150) | (250) | (850) | (250) | | FCF pre min divs | 5,756 | 5,206 | 1,493 | 3,688 | 4,176 | 3,833 | 4,837 | | **FCF post min divs** | **5,314** | **4,554** | **724** | **2,867** | **3,352** | **2,997** | **3,989** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **55,513** | **50,782** | **52,319** | **51,204** | **49,625** | **47,120** | **45,027** | | Net debt/EBITDA | 2.6x | 2.7x | 3.2x | 3.2x | 3.1x | 2.9x | 2.7x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Full year results and guidance for 2015:** We believe TEF will need to address its balance sheet limitations. We believe that- like last year- the current dividend level is not sustainable, unless TEF proceeds with asset disposals to fix the balance sheet. In the event of no inorganic options- we expect TEF could further reduce the cash element of its dividend policy at the upcoming results.
* **Sale of O2 UK:** BT is reportedly looking to acquire a MNO in the UK, with EE and O2 being the two that are being discussed. It is a binary event in our view as a lot will depend on the willingness of the parties to sell and the price considerations. H3G is reportedly also looking at making an acquisition in the UK to consolidate the market, so failure to agree terms with BT may not spell the end of TEF’s options regarding an exit from the UK market.
* **GVT acquisition:** TEF has already agreed the acquisition of GVT from Vivendi and expects to generate significant synergies from the merger, which should close in the 1H15. We do not include GVT in our estimates and remain concerned over the contribution to TEF’s financials as its EBITDA recognition tends to be stricter than its peers (both Hansenet and E-Plus contributed far less than when owned by Telecom Italia and KPN respectively).
* **Canal +:** Another acquisition in the pipeline is that of Canal, which is currently under review from the national regulator. It is unclear what concessions (or remedies) will be demanded and whether the deal will successfully complete.
* **Brazilian consolidation potential:** We see scope for consolidation in Brazil, though we see high execution risk, given the high levels of leverage for most operators (with the exception of AMX). We believe a deal is uncertain but arguably TEF is best placed to perform amid the turmoil in the market, with Oi suffering from high leverage and inability to generate FCF and TI lacking fixed and convergence in the future.

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| Figure 145. Telefónica’s Sum of Parts Valuation (€m) |
| |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Operation** | **Stake** | **Total** | **Net (debt)** | **Total** |  | **Telefonica** | **% of EV** |  | **EV/EBITDA** | **EBITDA** | **Price Driver** | |  | **end-2012** | **EV** | **2013E** | **MV** |  | **MV** |  |  | **2014E** | **2014E** |  | | **Spain** |  |  |  |  |  |  |  |  |  |  |  | | Fixed | 100% | 27,705 | 0 | 27,705 |  | 27,705 | 29.6% |  | 6.5x | 4,262 | 6.5x 2014E EBITDA | | Mobile | 100% | 6,627 | 0 | 6,627 |  | 6,627 | 7.1% |  | 6.0x | 1,104 | 6.0x 2014E EBITDA | | **Total** |  | **34,331** | **0** | **34,331** |  | **34,331** | **36.6%** |  | **6.4x** | **5,367** |  | |  |  |  |  |  |  |  |  |  |  |  |  | | **Latin America** |  |  |  |  |  |  |  |  |  |  |  | | Brazil (Vivo and Telesp) | 73.8% | 17,694 | 0 | 17,694 |  | 14,364 | 15.3% |  | 4.8x | 3,708 | Market value + 10% premium | | Argentina Fixed | 100% | 927 | 0 | 927 |  | 927 | 1.0% |  | 3.5x | 265 | 3.5x 2014E EBITDA | | Argentina Mobile | 100% | 1,710 | 0 | 1,710 |  | 1,710 | 1.8% |  | 3.5x | 488 | 3.5x 2014E EBITDA | | CEile Fixed | 97.9% | 1,499 | (479) | 1,411 |  | 1,381 | 1.5% |  | 5.2x | 288 | 5.2x 2014E EBITDA | | CEile Mobile | 100% | 2,091 | 0 | 2,091 |  | 2,091 | 2.2% |  | 5.2x | 402 | 5.2x 2014E EBITDA | | Colombia Fixed | 70% | 1,388 | (1,300) | 88 |  | 62 | 0.1% |  | 6.0x | 231 | 6.0x 2014E EBITDA | | Colombia Mobile | 70% | 3,786 | 0 | 3,786 |  | 2,650 | 2.8% |  | 10.0x | 379 | 10.0x 2014E EBITDA | | Peru Fixed | 98.3% | 2,485 | (639) | 2,587 |  | 2,544 | 2.7% |  | 6.0x | 414 | 6.0x 2014E EBITDA | | Peru Mobile | 100% | 4,571 | 0 | 4,571 |  | 4,571 | 4.9% |  | 9.0x | 508 | 9.0x 2014E EBITDA | | Mexico - Wireless | 100% | 3,323 | 0 | 3,323 |  | 3,323 | 3.5% |  | 11.0x | 302 | 11.0x 2014E EBITDA | | Venezuela - Wireless | 100% | 4,573 | 0 | 4,573 |  | 4,573 | 4.9% |  | 4.0x | 1,143 | 4.0x 2014E EBITDA | | Central America | 60.0% | 962 | 0 | 962 |  | 577 | 0.6% |  | 6.7x | 144 | 6.7x 2014E EBITDA | | Ecuador | 100% | 1,023 | 0 | 1,023 |  | 1,023 | 1.1% |  | 5.5x | 186 | 5.5x 2014E EBITDA | | Other | 100% | 110 | 0 | 110 |  | 110 | 0.1% |  | 5.5x | 20 | 5.5x 2014E EBITDA | | **Total** |  | **46,141** | **(2,417)** | **44,855** |  | **39,905** | **42.6%** |  | **5.4x** | **8,479** |  | |  |  |  |  |  |  |  |  |  |  |  |  | | **Europe** |  |  |  |  |  |  |  |  |  |  |  | | UK | 100% | 11,236 | 0 | 11,236 |  | 11,236 | 12.0% |  | 6.8x | 1,652 | 6.8x 2014E EBITDA | | Germany | 65% | 13,521 | (980) | 12,541 |  | 9,452 | 10.1% |  | 8.8x | 1,539 | Market value + Group Fees | | Other | 100% | 0 | 0 | 0 |  | 0 | 0.0% |  | 6.0x | 0 | 6.0x 2014E EBITDA | | **Total** |  | **24,757** | **(980)** | **23,777** |  | **20,688** | **22.1%** |  | **8.6x** | **2,862** |  | |  |  |  |  |  |  |  |  |  |  |  |  | | **Associates and other** |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia - Telco SPA | 46.18% | 2,157 | (2,500) | 0 |  | 0 | 0.0% |  |  |  | Market value | | CEina Unicom | 2.50% |  |  | 27,110 |  | 678 | 0.7% |  |  |  | Market value | | BBVA | 0.98% |  |  | 52,403 |  | 514 | 0.5% |  |  |  | Market value | | DTS | 22.00% |  |  | 70 |  | 15 | 0.0% |  |  |  | Market value | | **Total** |  |  |  | **85,388** |  | **1,276** | **1.4%** |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  | | **Enterprise Value** |  |  |  |  |  | **96,200** |  |  |  |  |  | | Net debt not included above |  |  | (38,824) | (38,824) |  | (38,824) | (41.4%) |  |  |  |  | | Hyrbid debt |  |  | (7,550) | (7,550) |  | (7,550) | (8.1%) |  |  |  |  | | Unfunded pension liabilities |  |  | (2,544) | (2,544) |  | (2,544) | (2.7%) |  |  |  |  | | NPV of tax/synergy |  |  |  |  |  | 233 | 0.2% |  |  |  |  | | **Value of portfolio optimisation** |  |  |  |  |  | **4,810** | **5.0%** |  |  |  |  | | **Equity value** |  |  |  |  |  | **52,325** | **55.8%** |  |  |  |  | | Shares outstanding (mn) |  |  |  |  |  | 4,551 |  |  |  |  |  | | **Per share value (EUR)** |  |  |  |  |  | **11.5** |  |  |  |  |  | |
| Source: Company Reports and Citi Research Estimates |

Telefónica Deutschland

## Welcoming the Self Help era

* Company Update

|  |
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|  |

|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | €4.19 |
| Target price | €4.74 |
| Expected share price return | 13.2% |
| Expected dividend yield | 5.7% |
| **Expected total return** | 18.9% |
| Market Cap | €12,457M |
|  | US$15,524M |

|  |
| --- |
| Price Performance (RIC: O2Dn.F, BB: O2D GR) |
|  |

* **Post Results Update** — Tef De continued to disappoint with OIBDA, reporting a pro-forma OIBDA of €350m (margin 17.5%). This was largely attributable to higher handset subsidies within E-Pus, which has been operating a negative hardware subsidy through 2014. This creates a large impact on current year margins, but should help future year service revenue trends, so long as the O2 network avoids wide-scale integration issues and potential associated churn.
* **Self Help started, more to come** — Tef De announced a downsizing of the workforce, with a reduction of 1,600 full time positions by 2018 (from approximately 9,100). It has also announced the sale of Yourfone with its 235k active subscribers. We believe this is only the start of many future announcements over cost cutting, with more measures to be revealed through 2015.
* **Spectrum Auction** — We don’t expect the upcoming 900/1800MHz auction to be very competitive. As a net result we expect Tef De to forfeit some of their holdings. Our current estimate for this auction is €900m for Tef De and €600 for the 700MHz auction, although we see downside risk to these estimates.
* **Where will the focus be now** — We believe that the focus will shift to 3 key areas: 1) delivery of synergy targets, and 2) keeping a close eye on mobile service revenues which are at risk of disappointing in 2015 given the price cuts we have seen from Tef De, and at risk of cannibalization from Drillisch. 3) E-Plus service revenues (and growth) could be much lower under TEF’s recognition as the handset sales (which have increased dramatically YoY) are not included in service revs.
* **Forecast Changes** — In this note we adjust our forecasts to align our Drillisch and Telefónica Deutschland models for the MBA MVNO revenues, this results in a revenue and profitability increase in Tef De (as we only recognised part of the modelled costs previously for prudence until more details of the contract was known). We also reflect the sale of the 235k Yourfone subscribers to Drillisch. These updates impact our 2014-2017 Net Income by -€8m / -€5m / +€29m, and EPS by -31% / -3% / +10% respectively. The large change in 2014e EPS results from revising the average shares outstanding to reflect deal completion at the end of 3Q14, as opposed to end 2Q14, which we modelled previously.

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| **Telefónica Deutschland Holding AG (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 5,213.0 | 4,914.0 | 5,516.4 | 7,479.9 | 7,413.6 |
| Net Income (€M) | 308.0 | 77.0 | -310.4 | -427.8 | -294.5 |
| Diluted EPS (€) | 0.28 | 0.07 | -0.20 | -0.14 | -0.10 |
| Diluted EPS (Old) (€) | 0.28 | 0.07 | -0.15 | -0.14 | -0.11 |
| PE (x) | 15.2 | 60.8 | -21.3 | -29.1 | -42.3 |
| EV/EBITDA (x) | 9.7 | 10.7 | 12.2 | 9.0 | 8.9 |
| DPS (€) | 0.45 | 0.47 | 0.24 | 0.24 | 0.24 |
| Net Div Yield (%) | 10.7 | 11.2 | 5.6 | 5.6 | 5.6 |

**Welcoming the Self Help era**

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| Figure 146. Tef De has underperformed the sector in 2014 (left axis €/share; right axis index: end-2006=100) |  | Figure 147. Near-Term Valuations challenging, until synergy benefits felt. Excellent near term dividend yield with scope to return to low leverage after the spectrum auctions |
|  |  |  |
| Source: DataStream |  | Source: Citi Research Estimates |
| Figure 148. Consensus EPS should stabilize around current levels (€) |  | Figure 149. EBITDA consensus now reflects E-Plus transaction (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 150. Compared to its peers in Europe, Telefónica Deutschland looks expensive on our 2015 and 2016 estimates, however deal synergies will take many years to ramp-up  €/share |
|  |
| Source: Powered by dataCentral |

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| Figure 151. Telefónica Deutschland forecasts  €m except per share items in € |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 5,213 | 4,914 | 5,516 | 7,480 | 7,414 | 7,402 | 7,457 | | *growth, yoy* | 3.5% | (5.7%) | 12.3% | 35.6% | (0.9%) | (0.2%) | 0.7% | | Operating costs | (3,934) | (3,677) | (4,440) | (5,944) | (5,766) | (5,621) | (5,513) | | *growth, yoy* | 1.2% | (6.5%) | 20.7% | 33.9% | (3.0%) | (2.5%) | (1.9%) | | **EBITDA** | **1,279** | **1,237** | **1,077** | **1,536** | **1,647** | **1,781** | **1,944** | | *growth, yoy* | 11.3% | (3.3%) | (12.9%) | 42.6% | 7.3% | 8.1% | 9.1% | | *margin* | *24.5%* | *25.2%* | *19.5%* | *20.5%* | *22.2%* | *24.1%* | *26.1%* | |  |  |  |  |  |  |  |  | | EBIT | 146 | 105 | (187) | (104) | (33) | 131 | 254 | | **Net income** | **308** | **77** | **(310)** | **(428)** | **(294)** | **(104)** | **68** | | EPS | 0.28 | 0.07 | (0.15) | (0.06) | (0.05) | (0.00) | 0.04 | | ***Consensus EPS*** |  |  | ***(0.15)*** | ***(0.12)*** | ***(0.03)*** | ***0.07*** | ***0.12*** | | DPS | 0.45 | 0.47 | 0.24 | 0.24 | 0.24 | 0.24 | 0.25 | | ***Consensus DPS*** |  |  | ***0.24*** | ***0.24*** | ***0.26*** | ***0.31*** | ***0.34*** | |  |  |  |  |  |  |  |  | | Capex | (609) | (666) | (802) | (1,192) | (1,053) | (912) | (895) | | of which: spectrum | 0 | 0 | 0 | (900) | 0 | (600) | 0 | | **FCF post min divs** | **(339)** | **609** | **175** | **182** | **424** | **784** | **854** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **927** | **736** | **727** | **2,145** | **2,420** | **2,936** | **2,782** | | Net debt/EBITDA | 0.7x | 0.6x | 0.7x | 1.4x | 1.5x | 1.6x | 1.4x | |
| Source: Powered by dataCentral |

## Significant upcoming events

* 4Q14 Results: These will be the first results with full consolidation of E-Plus, given the transaction closed on 1 October 2014. So far only indicative results have been provided which don’t allow levels of analysis commensurate with those of the legacy Tef De business. Our attention will move away from the shrinking OIBDA margin (from Handsets) towards top-line service revenue trends. We believe these are at risk of disappointing in this quarter and through 2015 given price cuts noticed in the market and also due to the potential impact of the Drillisch MVNO on the Tef De network.

We expect two different spectrum auctions in the medium term in Germany:

* 2015: 900MHz / 1,800MHz auction. We have modelled Tef De to spend $900m in this auction. The 900MHz range already has well balanced ownership (Vod & DT have 2x12.4MHz each currently, Tef De has 2x10MHz), with each operator guaranteed to emerge with at least 2x5MHz in this range. The 1,800MHz range is the mid-band range that is good for both city coverage and data capacity capabilities. Tef De will be submitting 7 blocks to the auction (with DT and Vod contributing 1 each), we expect Vodafone to pick up 2-3 blocks and maybe DT and extra block from the Tef De current holdings.
* 2017: 700MHz auction. This is newly issued spectrum to the mobile operators as part of the digital dividend. We expect Tef De to pay $600m in this auction alone, which will significantly help to improve Tef De’s coverage in Germany (at a lower cost than higher frequencies).

Both our spectrum estimates are worst case scenarios in our mind and we expect the actual outcome to surprise positively against these estimates, but prefer to err on the side of caution given the outcome of the recent auction in the USA.

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| Figure 152. Spectrum holding among operators (up&down-stream, MHz) |  | Figure 153. Tef De spectrum Holdings at present (MHz) |
|  |  |  |
| Source: Citi Research |  | Source: Citi Research |

Telenor

## Investors overlooking key structural challenges

* Company Update

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|  |  |
| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | NKr147.50 |
| Target price | NKr155.00 |
| Expected share price return | 5.1% |
| Expected dividend yield | 5.1% |
| **Expected total return** | 10.2% |
| Market Cap | NKr221,465M |
|  | US$30,058M |

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| Price Performance (RIC: TEL.OL, BB: TEL NO) |
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* **Upside to Norwegian mobile** — We see Norwegian mobile as Telenor’s core strength asset, with further upside on mobile service revenues in 2015 at +, on the back of increased data usage and 4G upsell. Telenor still has a significant network and brand advantage in a market with relatively high prices.
* **Uncertainty in EM** — DTAC is likely to face significant headwinds to growth from a competitive pricing environment, while its attempt to close the network coverage gap to competitors by rolling out 3G on the 850MHz spectrum should limit margin improvement. We see capex risk across Telenor’s EM footprint and one-off outflows to cover spectrum costs in Thailand and Malaysia. We see promising growth in rest of the footprint coming potentially at the expense of higher investment levels.
* **Awaiting regulatory decision in Norway and Denmark** — Despite being a very small part of group EV, we see the Telenor/Telia Danish JV as necessary sensible move, with room to cut costs and improve profitability. The combined entity will be better able to compete profitably in the market, in our view, however this is reliant on whether the regulatory remedies imposed will be moderate. Meanwhile, in Norway, Telenor will probably benefit from tougher remedies coming through on the Telia/Tele2 deal.
* **Catching the DSL customers** —Telenor was one of the first incumbents to announce plans to retire the copper network and as a result we expect a see a rapid migration of DSL broadband subscribers to superior technologies. We predict that both cable (33% share) and fibre (28% share) will surpass xDSL (37%) next year; a segment where Telenor has the most exposure at 60% xDSL market share. We highlight that Telenor might have difficulties catching the xDSL churn in their own cable and fibre base, partially because of underinvestment in fibre (while GET are reportedly investing heavily) and because the previously fragmented fibre have consolidated, becoming more efficient and commercial (Lyse/Viken/BKK now own >60% of the fibre market).
* **Neutral; NOK155 price target** —We like Telenor’s execution and operational excellence, strong balance sheet and its plans to keep capex at higher levels for longer (walked away from 2015 FCF targets). The valuation is reasonable, in our view, but we believe investors would be better served on entry points when EM risks are more clearly recognized by the market.

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| **Telenor ASA (NOK)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (NKrM) | 101,718.3 | 104,027.1 | 109,098.4 | 112,651.2 | 115,255.7 |
| Net Income (NKrM) | 15,403.6 | 11,064.8 | 12,520.2 | 14,434.6 | 16,366.6 |
| Diluted EPS (NKr) | 9.84 | 7.26 | 8.26 | 9.52 | 10.79 |
| Diluted EPS (Old) (NKr) | 9.84 | 7.26 | 8.26 | 9.52 | 10.79 |
| PE (x) | 15.0 | 20.3 | 17.9 | 15.5 | 13.7 |
| EV/EBITDA (x) | 6.7 | 6.5 | 6.1 | 6.0 | 5.7 |
| DPS (NKr) | 6.00 | 7.00 | 7.50 | 8.00 | 8.50 |
| Net Div Yield (%) | 4.1 | 4.7 | 5.1 | 5.4 | 5.8 |

## Investors overlooking key structural challenges

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| Figure 154. Telenor's relative performance has stabilised since March-14 (left axis €/share; right axis index: end-2006=100) |  | Figure 155. Telenor trades in line with the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 156. Consensus EPS is continuing to decline (NOK) |  | Figure 157. EBITDA consensus has been increasing (NOKbn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 158. Compared to its incumbent and wireless peers in Europe, Telenor trades at a premium on our 2015 and 2016 estimates  NOK/share |
|  |
| Source: Powered by dataCentral, Citi Research |

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| --- |
| Figure 159. Telenor forecasts  NOKm except for per share data |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 101,718 | 104,027 | 109,098 | 112,651 | 115,256 | 117,643 | 120,010 | | *growth, yoy* | 3.3% | 2.3% | 4.9% | 3.3% | 2.3% | 2.1% | 2.0% | | Operating costs | (69,738) | (68,818) | (68,563) | (72,677) | (73,961) | (75,016) | (76,211) | | *growth, yoy* | 1.8% | (1.3%) | (0.4%) | 6.0% | 1.8% | 1.4% | 1.6% | | **EBITDA** | **31,980** | **35,209** | **40,535** | **39,974** | **41,295** | **42,626** | **43,798** | | *growth, yoy* | 6.5% | 10.1% | 15.1% | (1.4%) | 3.3% | 3.2% | 2.7% | | *margin* | *31.4%* | *33.8%* | *37.2%* | *35.5%* | *35.8%* | *36.2%* | *36.5%* | |  |  |  |  |  |  |  |  | | EBIT | 9,755 | 21,328 | 25,786 | 24,593 | 25,735 | 27,061 | 28,237 | | **Net income** | **15,404** | **11,065** | **12,520** | **14,435** | **16,367** | **17,428** | **18,418** | | EPS | 9.84 | 7.26 | 8.26 | 9.52 | 10.79 | 11.49 | 12.14 | | ***Consensus EPS*** | ***11.03*** | ***10.23*** | ***8.54*** | ***10.31*** | ***11.33*** | ***12.35*** | ***13.56*** | | DPS | 6.00 | 7.00 | 7.50 | 8.00 | 8.50 | 8.60 | 9.10 | | ***Consensus DPS*** | ***6.00*** | ***7.00*** | ***7.59*** | ***8.26*** | ***9.07*** | ***9.83*** | ***10.84*** | |  |  |  |  |  |  |  |  | | Capex | (16,892) | (15,612) | (22,615) | (18,510) | (16,350) | (16,102) | (16,218) | | of which: spectrum | (9,228) | (2,386) | (6,427) | 0 | 0 | 0 | 0 | | FCF pre min divs | 7,109 | 21,378 | 9,413 | 12,938 | 16,214 | 21,113 | 23,142 | | **FCF post min divs** | **1,094** | **18,649** | **6,626** | **10,392** | **13,401** | **17,862** | **19,780** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **41,296** | **46,314** | **49,623** | **50,606** | **49,338** | **44,367** | **37,631** | | Net debt/EBITDA | 1.3x | 1.3x | 1.2x | 1.3x | 1.2x | 1.0x | 0.9x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Danish regulator and EU to decide on remedies for the Telenor/Telia JV –** The Telia/Telenor JV we expect will qualify for review in Brussels, given that Telia and Telenor have over 1/3 of EU based revenues coming from other markets. We expect a lengthy process before we get a final decision that could last until the end of 2015, given it is likely to be pushed to Phase II.
* **Norwegian regulator to decide on remedies for Telia/Tele2 merger –** Norway's competition authority announced they may block Telia's proposed acquisition of Tele2 in Norway, citing fears that with just two main operators in the country, consumers will face higher prices. Final decision expected on the 22nd of January 2015.
* **Spectrum auction in India (expected in 2015).** Telenor is eying six of the seven telecom zones where the license of Reliance Communications is due for renewal. Reliance’s mobile licenses for Madhya Pradesh, West Bengal, Bihar, Orissa, Assam, Himachal Pradesh and the Northeast will be due for renewal in 2015, when the government will hold its next spectrum auctions.
* **Get potentially becoming an MVNO.** The Telia potential purchase of Tele2 Norway removes one of the three big players from the market and we believe that Norwegian authorities could make concessions that enable MVNOs in Norway to earn money on the market, creating an attractive opportunity for Get to offer MVNO services.
* **The launch of satellite Thor 7 (expected in Q1 2015)**
* **MTR cuts.** The Norwegian regulator has announced a new glide path for MTR rates in Norway, proposing a reduction in the MTR rate from 1 April 2015 from NOK 0.16/minute to NOK 0.083/minute, with subsequent cuts at the beginning of 2016 and 2017 to NOK 0.075 and NOK 0.065, respectively. In addition Thai MTR cut is expected in July 2015, Danish MTR cut is expected in Jan 2015 and a Serbian MTR cut is expected in Jan 2015.

TeliaSonera

## EBITDA to FCF/ earnings conversion is best in class

* Company Update

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|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | SKr51.00 |
| Target price | SKr58.00 |
| Expected share price return | 13.7% |
| Expected dividend yield | 4.9% |
| **Expected total return** | 18.6% |
| Market Cap | SKr220,834M |
|  | US$29,264M |

|  |
| --- |
| Price Performance (RIC: TLSN.ST, BB: TLSN SS) |
|  |

* **We see upside in Swedish mobile** — We see Telia as well exposed to domestic 4G data upside and increased video usage, with more than 40% of consumer subscriptions now on data-centric price plans, which will continue to drive up ARPU. Helped by the further migration to the bigger screened 4G enabled iPhone 6, we expect this trend to continue next year, and expect consumer service revenues to grow even faster in the coming quarters for the market.
* **Coming together elsewhere** —Finland is clearly turning a corner, reporting strong service revenues and with significant scope for price inflation and data usage upside. In Spain, we believe Telia has left itself room to start winning market share, after fixed consolidation eliminated the MVNO inroads in mobile from ONO and Jazztel. Eurasia is operationally decent and any problems are outside of Telia’s control.
* **Norwegian deal a key catalyst** — The regulatory remedy decision in Norway (expected on the 22nd January) regarding the Tele2 acquisition is now a key catalyst in terms of outperformance versus Telenor (where the deal confines the scale disadvantage vs. Telenor). In addition, we await regulatory decision in Denmark, where we see market consolidation as necessary sensible move, with room to cut costs and improve profitability, but that is reliant on whether the regulatory remedies imposed will be moderate.
* **Buy, price target of SEK58** —Telia is a story in transition. Management has set out the plan for higher investments but that will take time to yield results. We still believe Telia’s capex program will yield high and relatively predictable returns. Also, as with all the other Nordic companies under review, Telia’s EBITDA to FCF/ earnings conversion is best in class due to lower than average capex to sales (despite these countries hosting the best networks in Europe)/ low financial costs and the lowest corporate tax rates (ex-Switzerland). We believe that Telia’s valuation is attractive at <14x earnings and c.6% dividend yield; particularly as its Nordic assets start to show inflection. We slightly lower our estimates based on B2B worries.

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| **TeliaSonera AB (SEK)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (SKrM) | 104,898.0 | 101,700.0 | 100,824.9 | 100,824.9 | 100,824.9 |
| Net Income (SKrM) | 16,756.0 | 16,270.0 | 15,524.9 | 16,293.9 | 16,635.2 |
| Diluted EPS (SKr) | 3.87 | 3.76 | 3.59 | 3.76 | 3.84 |
| Diluted EPS (Old) (SKr) | 3.87 | 3.76 | 3.61 | 3.82 | 3.91 |
| PE (x) | 13.2 | 13.6 | 14.2 | 13.6 | 13.3 |
| EV/EBITDA (x) | 6.4 | 6.6 | 6.7 | 6.6 | 6.6 |
| DPS (SKr) | 2.85 | 3.00 | 3.00 | 3.00 | 3.10 |
| Net Div Yield (%) | 5.6 | 5.9 | 5.9 | 5.9 | 6.1 |

## EBITDA to FCF/earnings conversion is best in class

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| Figure 160. TeliaSonera has lately lost some relative outperformance against the sector (left axis p/share; right axis index: end-06=100) |  | Figure 161. TeliaSonera trades slightly below the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 162. Consensus EPS rise has lately been falling (SEK) |  | Figure 163. EBITDA consensus has been heading down (SEKbn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 164. Compared to its incumbent and wireless peers in Europe, TeliaSonera generally trades above the median on our 2015 and 2016 estimates, but looks cheap on PE  £/share |
|  |
| Source: Powered by dataCentral |

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| Figure 165. TeliaSonera forecasts  SEKm except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 104,898 | 101,700 | 100,825 | 100,825 | 100,825 | 100,825 | 100,825 | | *growth, yoy* | 0.1% | (3.0%) | (0.9%) | 0.0% | 0.0% | 0.0% | 0.0% | | Operating costs | (69,824) | (68,044) | (67,596) | (66,249) | (65,297) | (65,072) | (64,734) | | *growth, yoy* | 3.3% | (2.5%) | (0.7%) | (2.0%) | (1.4%) | (0.3%) | (0.5%) | | **EBITDA** | **35,074** | **33,656** | **33,229** | **34,576** | **35,528** | **35,753** | **36,091** | | *growth, yoy* | (5.7%) | (4.0%) | (1.3%) | 4.1% | 2.8% | 0.6% | 0.9% | | *margin* | *33.4%* | *33.1%* | *33.0%* | *34.3%* | *35.2%* | *35.5%* | *35.8%* | |  |  |  |  |  |  |  |  | | EBIT | 14,532 | 18,441 | 20,222 | 20,985 | 21,195 | 20,988 | 21,143 | | **Net income** | **16,756** | **16,270** | **15,525** | **16,294** | **16,635** | **16,848** | **17,496** | | EPS | 4.59 | 3.46 | 3.59 | 3.76 | 3.84 | 3.89 | 4.04 | | ***Consensus EPS*** | ***4.66*** | ***4.20*** | ***3.95*** | ***4.16*** | ***4.25*** | ***4.34*** | ***4.71*** | | ***Consensus DPS*** | ***2.85*** | ***3.00*** | ***3.03*** | ***3.09*** | ***3.15*** | ***3.23*** | ***3.17*** | |  |  |  |  |  |  |  |  | | Capex | (15,139) | (14,726) | (16,773) | (20,884) | (20,706) | (17,719) | (17,754) | | of which: spectrum | (357) | (962) | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 23,740 | 16,310 | 11,384 | 10,967 | 13,019 | 15,360 | 16,037 | | **FCF post min divs** | **20,740** | **14,363** | **9,575** | **9,125** | **11,157** | **13,478** | **14,135** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **64,343** | **60,674** | **62,686** | **66,549** | **68,380** | **68,322** | **68,041** | | Net debt/EBITDA | 1.8x | 1.8x | 1.9x | 1.9x | 1.9x | 1.9x | 1.9x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Danish regulator and EU to decide on remedies for the Telenor/Telia JV –** The Telia/Telenor JV we expect will qualify for review in Brussels, given that Telia and Telenor have over 1/3 of EU based revenues coming from other markets. We expect a lengthy process before we get a final decision that could last until the end of 2015, given it is likely to be pushed to Phase II.
* **Norwegian regulator to decide on remedies for Telia/Tele2 merger –** Norway's competition authority announced they may block Telia's proposed acquisition of Tele2 in Norway, citing fears that with just two main operators in the country, consumers will face higher prices. Final decision expected on the 22nd of January 2015.
* **Turkcell dividend being paid (estimated in 2015).** Although the shareholder dispute may not end in the near term, there is a chance that the government could resolve the dividend issue as a law passed on August 2nd 2013 allows CMB, via its Investor Compensation Committee, to make decisions on behalf of shareholders for those companies (meeting expected to take place in March-April 2015). We therefore see 2015 as the year when the dividend payments are likely to be introduced, even in the absence of a full resolution.
* **Telia plans to launch new domestic B2B services in February 2015**, focused on SOHO and SME segments.
* **Fixed regulation decision (expected by year-end).** The final decision on PTS’ new regulatory proposal regarding the easing of Telia’s fixed wholesale regulation (on copper and on fiber) is expected by the end of the year.
* **Convergence to be launched in Sweden.** Rhetoric from both Telia and Com Hem suggests that they will launch quadplay play offers in the medium term. We believe offering a quadplay bundle in a market that is used to having handset subsidies makes the offerings quite complex and that having a significant amount of physical stores is crucial. It could be a struggle for Com Hem to offer a quadplay bundle on par with scaled and established mobile peers such as Telia and Telenor.
* **MTR cuts.** The Norwegian regulator has announced a new glide path for MTR rates in Norway, proposing a reduction in the MTR rate from 1 April 2015 from NOK 0.16/minute to NOK 0.083/minute, with subsequent cuts at the beginning of 2016 and 2017 to NOK 0.075 and NOK 0.065, respectively. Furthermore, there is a Danish MTR cut expected in Jan 2015.

Telekom Austria

## Compelling fundamentals; M&A risk prevails

* Company Update

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| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | €5.31 |
| Target price | €6.10 |
| *from €6.44* |  |
| Expected share price return | 14.9% |
| Expected dividend yield | 0.9% |
| **Expected total return** | 15.8% |
| Market Cap | €3,528M |
|  | US$4,397M |

|  |
| --- |
| Price Performance (RIC: TELA.VI, BB: TKA AV) |
|  |

* **Capital raise done, what now?** — Management announced its intention to use proceeds in deleveraging, fibre investments in domestic market and potential acquisitions. With fibre roll out plan already slated to start next, we see possible deal announcement remains potential catalyst in near term. Stock declined more than 20% since October over the concerns of right issue and use of proceeds. Although management stressed that there is very small room for expanding footprints and acquisitions will be done with a view of providing convergent products on current markets, we see market will remain cautious until any clarity on M&A and possible impact on leverage position.
* **Austria** — TKA reported improving trends in domestic market in 2014. We expect some pressure on pricing environment in the mobile market in near term with launch of new MVNOs. Though recent launch of MVNO services by UPC Austria was not disruptive, we remain cautious about MVNO launch slated early next year. However, we believe TA will benefit in long term with its investment in spectrum. On fixed side, though monetization of fibre investment remains a concern, we see fibre roll out will benefit the company in long term in gaining broadband market share in otherwise low penetrated fixed broadband market.
* **International remain under pressure** —We believe international business continue to remain under pressure in 2015 with intense competition and new wave of regulatory cuts coming in January 2015. Although we see some improvement coming in Belarus, with slightly lower forex impact than expected earlier, and Serbia, we believe Croatia and Bulgaria continue to see some deterioration in near term.
* **Neutral/ price target of €6.1/share** — We believe TA is not a clear investment story with strong domestic operations, regulation and Marco impacted CEE business and concerns over dilutive acquisitions. We believe TA’s fundamental value is in excess of our €6.1 DCF valuation as we believe there is significant upside to the value of the domestic operations as the benefits of consolidation and increase fiber penetration to come through over the next few years. However, we believe market will continue to remain cautious in near term over announcement of potential acquisitions and consequent impact on leverage position. We reiterate our Neutral rating and reduce our target price to €6.1 from €6.44 due to deteriorating CEE business, near term pressure in Austrian mobile market and concerns over M&A.

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| **Telekom Austria (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 4,329.7 | 4,183.9 | 4,032.6 | 4,043.7 | 4,113.0 |
| Net Income (€M) | 118.5 | 135.8 | 191.9 | 206.9 | 240.9 |
| Diluted EPS (€) | 0.27 | 0.31 | 0.42 | 0.31 | 0.36 |
| Diluted EPS (Old) (€) | 0.25 | 0.28 | 0.36 | 0.44 | 0.55 |
| PE (x) | 19.8 | 17.3 | 12.8 | 17.1 | 14.6 |
| EV/EBITDA (x) | 4.7 | 5.4 | 5.2 | 4.6 | 4.4 |
| DPS (€) | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Net Div Yield (%) | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |

## Compelling fundamentals; M&A risk prevails

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| Figure 166. TKA is still modestly underperforming (left axis/€share; right axis index: end-06=100) |  | Figure 167. TKA trades above the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 168. Consensus EPS continues looks to have stabilised (€) |  | Figure 169. EBITDA consensus has also stabilised (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 170. Compared to its incumbent and wireless peers in Europe, TKA trades around the median on our 2015 and 2016 estimates, €/share |
|  |
| Source: Powered by dataCentral, Citi Research |

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| Figure 171. Telekom Austria forecasts  €m except per share items in €s |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 4,330 | 4,184 | 4,033 | 4,044 | 4,113 | 4,154 | 4,168 | | *growth, yoy* | (2.8%) | (3.4%) | (3.6%) | 0.3% | 1.7% | 1.0% | 0.3% | | Operating costs | (2,874) | (2,897) | (2,749) | (2,749) | (2,800) | (2,830) | (2,844) | | *growth, yoy* | (1.8%) | 0.8% | (5.1%) | 0.0% | 1.9% | 1.1% | 0.5% | | **EBITDA** | **1,455** | **1,287** | **1,284** | **1,294** | **1,313** | **1,324** | **1,324** | | *growth, yoy* | (4.7%) | (11.5%) | (0.3%) | 0.8% | 1.4% | 0.9% | 0.0% | | *margin* | *33.6%* | *30.8%* | *31.8%* | *32.0%* | *31.9%* | *31.9%* | *31.8%* | |  |  |  |  |  |  |  |  | | EBIT | 491 | 423 | 441 | 446 | 472 | 472 | 477 | | **Net income** | **119** | **136** | **192** | **207** | **241** | **255** | **270** | | EPS | 0.36 | 0.39 | 0.67 | 0.32 | 0.37 | 0.39 | 0.42 | | ***Consensus EPS*** | ***0.29*** | ***0.28*** | ***0.25*** | ***0.32*** | ***0.41*** |  |  | | DPS | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.20 | 0.29 | | ***Consensus DPS*** | ***0.05*** | ***0.05*** | ***0.05*** | ***0.05*** | ***0.18*** |  |  | |  |  |  |  |  |  |  |  | | Capex | (764) | (764) | (698) | (803) | (919) | (828) | (731) | | of which: spectrum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | 284 | 288 | 326 | 229 | 145 | 267 | 379 | | **FCF post min divs** | **284** | **288** | **326** | **229** | **145** | **267** | **379** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **3,195** | **3,756** | **2,489** | **2,296** | **2,188** | **1,959** | **1,721** | | Net debt/EBITDA | 2.2x | 2.9x | 1.9x | 1.8x | 1.7x | 1.5x | 1.3x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Launch of new MVNO:** With 5 MVNOs already announced their intention to launch services in 2015, we expect pressure in pricing environment in the mobile market. The Austrian mobile market shown signs of market recovery in last few quarter with all three operators increasing tariffs. However, we see new MVNO might take this as an opportunity to gain market share.
* **Deal announcements:** TKA announced its intention to use right issue proceed for further acquisitions. We see any deal announcement as major catalyst for stock in near term.

## Forecast revisions

We include recent right issue and 3Q results in our model. We raise our revenue estimates for 2014 on account of better than expected forex trends at Belarus while slightly reduce our estimates for 2015 and 2016 driven by deterioration in Bulgaria and Croatia. We raise our D&A estimate on account of higher capex. Consequently, our net income estimate increase 9.4% in 2014 while declines 2.3% and 9% in 2015 and 2016 respectively. We raised our capex estimate for 2015-2018 to include investment on fibre roll out.

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| Figure 172. Telekom Austria forecast changes  €m except for per share items |
| |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  | **New** |  |  |  | **Prior** |  |  |  | **∆%** |  | | **Year to Dec** | **2014E** | **2015E** | **2016E** |  | **2014E** | **2015E** | **2016E** |  | **2014E** | **2015E** | **2016E** | | Revenue | 4,033 | 4,044 | 4,113 |  | 3,974 | 4,053 | 4,132 |  | 1.5% | (0.2%) | (0.5%) | | *growth, yoy* | (3.6%) | 0.3% | 1.7% |  | (5.0%) | 2.0% | 1.9% |  |  |  |  | | Operating costs | (2,749) | (2,749) | (2,800) |  | (2,712) | (2,759) | (2,816) |  | 1.4% | (0.4%) | (0.6%) | | *growth, yoy* | (5.1%) | 0.0% | 1.9% |  | (6.4%) | 1.8% | 2.1% |  |  |  |  | | **EBITDA** | **1,284** | **1,294** | **1,313** |  | **1,262** | **1,294** | **1,316** |  | **1.7%** | **0.0%** | **(0.3%)** | | *growth, yoy* | (0.3%) | 0.8% | 1.4% |  | (2.0%) | 2.5% | 1.7% |  |  |  |  | | *margin* | *31.8%* | *32.0%* | *31.9%* |  | *31.8%* | *31.9%* | *31.8%* |  | 8bp | 9bp | 6bp | |  |  |  |  |  |  |  |  |  |  |  |  | | EBIT | 441 | 446 | 472 |  | 420 | 452 | 502 |  | 5.0% | (1.4%) | (6.0%) | | **Net income** | **192** | **207** | **241** |  | **175** | **212** | **265** |  | **9.4%** | **(2.3%)** | **(9.0%)** | | EPS | 0.67 | 0.32 | 0.37 |  | 0.59 | 0.45 | 0.56 |  | 13.9% | (29.3%) | (34.0%) | | DPS | 0.05 | 0.05 | 0.05 |  | 0.05 | 0.05 | 0.05 |  | 8.6% | 8.6% | 8.6% | |  |  |  |  |  |  |  |  |  |  |  |  | | Capex | (698) | (803) | (919) |  | (690) | (706) | (722) |  | 1.2% | 13.8% | 27.2% | | FCF pre min divs | 326 | 229 | 145 |  | 312 | 324 | 339 |  | 4.5% | (29.5%) | (57.2%) | | **FCF post min divs** | **326** | **229** | **145** |  | **312** | **324** | **339** |  | **4.5%** | **(29.5%)** | **(57.2%)** | |  |  |  |  |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **2,489** | **2,296** | **2,188** |  | **3,500** | **3,200** | **2,887** |  | **(28.9%)** | **(28.3%)** | **(24.2%)** | | Net debt/EBITDA | 1.9x | 1.8x | 1.7x |  | 2.8x | 2.5x | 2.2x |  | (0.8x) | (0.7x) | (0.5x) | |
| Source: Citi Research |

## Valuation

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| Figure 173. Telekom Austria’s Sum of Parts Valuation (€m) |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | **Stake (%)** | **Enterprise Value** | **Per Share Value** | **As a % of** | **Metric** | **2014E** | |  |  | **(€m)** | **(€)** | **Group EV** |  | **EV/EBITDA** | | Domestic | 100% | 5,421 | 8.2 | 65.2% | DCF( 7.5% WACC, 0% terminal growth) | 7.2x | | **Total Domestic Telecom Assets** |  | **5,421** | **8.2** | **65.2%** |  | **7.2x** | |  |  |  |  |  |  |  | | Velcom (Belarus) | 100% | 742 | 1.1 | 8.9% | DCF( 13% WACC, 5% terminal growth) | 4.2x | | Mobiltel (Bulgarian Mobile) | 100% | 499 | 0.8 | 6.0% | DCF( 12% WACC, 0% terminal growth) | 3.5x | | VIPnet (Croatian Mobile) | 100% | 444 | 0.7 | 5.3% | DCF( 12% WACC, 1% terminal growth) | 4.9x | | Telecom Liechtenstein (Liechtenstein) | 24% | 4 | 0.0 | 0.0% | 2014 EBITDA multiple | 4.0x | | Vip operator (FYROM) | 100% | 200 | 0 | 2.4% |  | 13.8x | | Vip mobile (Serbia) | 100% | 650 | 1 | 7.8% |  | 9.4x | | Si.mobil (Slovenian Mobile) | 100% | 352 | 0.5 | 4.2% | DCF( 9.5% WACC, 2% terminal growth) | 5.2x | | **Total International Mobile** |  | **2,890** | **4.3** | **34.8%** |  | **5.2x** | |  |  |  |  |  |  |  | | **Total Consolidated Assets** |  | **8,312** | **12.5** | **100.0%** |  | **6.3x** | |  |  |  |  |  |  |  | | **Group Enterprise Value** |  | **8,312** | **12.5** | **100.0%** |  | 6.5x | | 2014E Net Debt |  | 2,489 | 3.7 | 29.9% |  |  | | Hybrid debt |  | 600 | 0.9 | 7.2% |  |  | | NPV of restructuring |  | 700 | 1.1 | 8.4% |  |  | | Discount to DCF |  | 452 | 0.7 | 10.0% |  |  | | **Group Equity Value** |  | **4,070** | **6.1** | **49.0%** |  |  | |
| Source: Citi Research |

Vodafone

## Key Megacap play on European 4G

* Company Update

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|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | £2.15 |
| Target price | £2.50 |
| Expected share price return | 16.1% |
| Expected dividend yield | 5.2% |
| **Expected total return** | 21.3% |
| Market Cap | £57,074M |
|  | US$89,722M |

|  |
| --- |
| Price Performance (RIC: VOD.L, BB: VOD LN) |
|  |

* **Vodafone earnings sensitive to mobile service revenue improving** — We see Vodafone as a key megacap play on European 4G where it appears to have got off to a strong start as we explain at greater length on page 10. Vodafone is first among the megacaps, and fourth in the sector overall, in terms of earnings sensitivity to a change in European mobile service revenue. As we show on page 7 a 1% rise in its European mobile service revenue would lead to a rise of 1.2% in group EBITDA and 6.1% in adjusted net income on our estimates. We consequently see Vodafone as a good way to play a 4G-driven recovery in European mobile, and reiterate our Buy rating / 250p target price. Vodafone remains a member of our Citi Focus List Europe.
* **Snap back to growth in March 2015 quarter?** — Having seen its organic service revenue growth improve sharply in 2Q (to a fall of -1.7% yoy allowing for a one-off at Vodacom), Vodafone’s qoq revenue trend has greatly improved in key markets including Germany and Italy. While its quarter to Dec 2014 has a tougher comp we expect another improvement in growth (to around -1% yoy) but in the Mar 2015 we now expect positive growth of c.+1%.
* **4G making an impact with only 6% of the European base migrated** — In fiscal 2Q15 in Europe Vodafone saw average smartphone data usage up 61% yoy and data volume uplift from migration 3G to 4G is +100% or more in the UK (to 2.1GB), Spain (1.3GB) and Germany (1.0GB). Overall volume growth is accelerating in a number of European markets, particularly in the UK (at +120% yoy - ) but also in Italy and Spain. Of those customers with a 4G phone 60% now take a 4G service up from under 50% only last quarter and 40% a year ago.
* **Potential for a deal with Liberty Global** — We remain of the view that Vodafone has a “not now but not never” view on a combination with Liberty Global. We believe that Vodafone’s interest is strongest in Liberty’s German asset. It is not clear to us how deep Vodafone’s interest really goes given it passed on the opportunity to bid for Virgin Media of the UK and Ziggo of the Netherlands when they were in play prior to Liberty acquiring them. If, however, cable plus mobile turns out to be a potent combination in the markets where deals have been done the topic is likely to return.
* We summarise Vodafone's strategy in Europe as broadly a combination of network differentiation through heavy, fast start investment in 4G and supporting infrastructure, improving pricing power through higher pricing of wholesale relative to retail, particularly for 4G, even if this means that MVNOs choose to go elsewhere, and greater commitment to differentiated convergent offers through cable acquisitions and selective investment in fibre broadband.

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|  |  |  |  |  |  |
| **Vodafone Group PLC (GBP)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Mar** | **2013A** | **2014A** | **2015E** | **2016E** | **2017E** |
| Sales (£M) | 44,445.0 | 43,616.0 | 42,343.1 | 43,299.8 | 44,287.3 |
| Profit Before Tax (£M) | 3,267.0 | 62,156.0 | 6,940.5 | 1,331.6 | 2,938.3 |
| Diluted EPS (p) | 16.8 | 8.6 | 7.0 | 6.7 | 10.4 |
| Diluted EPS (Old) (p) | 16.8 | 8.6 | 7.0 | 6.7 | 10.4 |
| PE (x) | 12.8 | 25.0 | 30.9 | 31.9 | 20.8 |
| EV/EBITDA (x) | 1.1 | 4.7 | 6.4 | 6.8 | 6.2 |
| DPS (p) | 10.2 | 11.0 | 11.2 | 11.4 | 12.0 |
| Net Div Yield (%) | 4.7 | 5.1 | 5.2 | 5.3 | 5.6 |

## Key Megacap play on European 4G

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| Figure 174. Vodafone has lately lost some relative outperformance against the sector (left axis p/share; right axis index: end-06=100) |  | Figure 175. Vodafone trades slightly above the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 176. Consensus EPS rise has lately been falling (p) |  | Figure 177. EBITDA consensus has been heading down (£bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

**Vodafone is the most exposed of the megacaps to improved mobile service revenue growth in Europe.** We calculate 1% more revenue at that level would deliver 1.2% more EBITDA for the group which equates to 6.1% of group earnings at the average European tax rate. Due mainly to the easier comp we already expect the Jan-Mar 2015 quarter to show the first positive service revenue growth figure for the group for 11 quarters at around +1% excluding KDG and Ono - we expect KDG to be included in the organic calculation from fiscal 1Q16 and Ono from 1Q17.

Vodafone's European postpaid ARPU averages €27.1 per month with Germany at €27.7, UK at £27.3 and Spain at €23.1. Vodafone Red for SIM only post paid averages a step up from one data tier to the next of €15 per month inc VAT in Germany, £5.80 in the UK, €23 in Italy (under the Relax brand) and €9 in Spain. Roughly half of Vodafone's European handset customers use a smartphone and of those around two thirds take a Red price plan. **If the Red customers upgrade by half a tier on average that would add around 2% to European mobile service revenue on our estimates, boosting EBITDA by 2.4% and adjusted net income by 12.2%.**

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| Figure 178. Compared to its incumbent and wireless peers in Europe, Vodafone generally trades above or in line with the median on our 2015 and 2016 estimates  £/share |
|  |
| Source: Powered by dataCentral |

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| --- |
| Figure 179. Vodafone forecasts  £m except for per share items |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Mar** | **2012** | **2013** | **2014** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 46,417 | 44,445 | 43,616 | 42,343 | 43,300 | 44,287 | 45,422 | | *growth, yoy* | 1.2% | (4.2%) | (1.9%) | (2.9%) | 2.3% | 2.3% | 2.6% | | Operating costs | (31,942) | (31,170) | (30,785) | (30,273) | (30,798) | (30,513) | (30,878) | | *growth, yoy* | 2.3% | (2.4%) | (1.2%) | (1.7%) | 1.7% | (0.9%) | 1.2% | | **EBITDA** | **14,475** | **13,275** | **12,831** | **12,070** | **12,502** | **13,774** | **14,543** | | *growth, yoy* | (1.3%) | (8.3%) | (3.3%) | (5.9%) | 3.6% | 10.2% | 5.6% | | *margin* | *31.2%* | *29.9%* | *29.4%* | *28.5%* | *28.9%* | *31.1%* | *32.0%* | | ***Consensus EBITDA*** |  |  | ***12,831*** | ***11,943*** | ***12,453*** | ***13,048*** | ***13,606*** | |  |  |  |  |  |  |  |  | | EBIT | 6,569 | 5,483 | 4,099 | 2,972 | 2,936 | 4,425 | 5,598 | | Share associate NI | 4,963 | 6,477 | 3,224 | (26) | (3) | 30 | 63 | | **Net income** | **8,163** | **8,289** | **4,125** | **1,858** | **1,803** | **2,779** | **3,480** | | Diluted shares | 49,960 | 49,163 | 26,684 | 26,750 | 26,816 | 26,883 | 26,949 | | Basic EPS | 16.1 | 16.9 | 8.6 | 7.0 | 6.7 | 10.4 | 13.0 | | ***Consensus EPS*** |  |  | ***17.4*** | ***6.3*** | ***6.6*** | ***8.2*** | ***9.5*** | | DPS | 13.5 | 10.2 | 11.0 | 11.2 | 11.4 | 12.0 | 13.2 | | ***Consensus DPS*** |  |  | ***11.0*** | ***11.3*** | ***11.5*** | ***11.6*** | ***12.2*** | |  |  |  |  |  |  |  |  | | Capex | (7,735) | (8,549) | (7,447) | (11,227) | (10,014) | (6,030) | (6,088) | | of which: spectrum | (1,429) | (2,507) | (862) | (844) | (554) | (72) | (71) | | FCF (co definition) | 6,105 | 5,608 | 4,405 | (778) | 982 | 5,555 | 6,100 | | **FCF post min divs** | **9,835** | **8,104** | **8,344** | **(1,103)** | **890** | **6,256** | **7,118** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **23,922** | **26,572** | **8,949** | **21,700** | **24,383** | **21,977** | **19,240** | | Net debt/EBITDA | 1.7x | 2.0x | 0.7x | 1.8x | 2.0x | 1.6x | 1.3x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **Indian spectrum auction:** The regulator has begun a consultation which will probably lead to an auction, largely for renewals, likely in our view to be in around Jan/Feb 2015. The auction may include some new spectrum at 2100MHz depending on the government’s success in freeing it up from use by state agencies.
* **Neotel acquisition set to close by March 2015:** Vodafone has announced the acquisition of Neotel, South Africa’s second fixed line operator, for ZAR7bn (£380m) which it expects to close by the end of March 2015 subject to regulatory approval. As well as fibre assets Neotel has access to 2x12MHz of 1800MHz spectrum, 2x5MHz at 800MHz spectrum and 2x28MHz at 3.5GHz.
* **Indian capital gains tax risk** remains for now despite the change in government. In the original case the tax authority claimed INR112.18bn (£1.27bn) including tax of INR79bn rupees and interest of INR33.2bn. We assume no payment in our forecasts. Although there has not been formal progress on the CGT case the government has decided not to appeal an unrelated tax case regarding transfer pricing.
* **Vodafone India public listing.** Vodafone has indicated that it may be interested in seeking a public listing for Vodafone India at some point. The benefit for Vodafone would be to reduce the cost of compliance with the foreign ownership rules as well as to create a body of local shareholders with the same economic interests as itself.

Com Hem

## Strong 2015 operating outlook

* Company Update

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| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | SKr59.90 |
| Target price | SKr54.00 |
| Expected share price return | -9.8% |
| Expected dividend yield | 1.7% |
| **Expected total return** | -8.2% |
| Market Cap | SKr12,431M |
|  | US$1,647M |

|  |
| --- |
| Price Performance (RIC: COMH.ST, BB: COMH SS) |
|  |

* **Accelerating revenue trends** — This year Com Hem proved itself as a dangerous broadband challenger to Telia, reporting strong KPIs and accelerating trends on all revenues lines. Com Hem was the only player in the market to accelerate promotional activity on broadband and we believe it will continue to spend EBITDA to grow broadband market share next year. Furthermore, Com Hem continues to reap the benefits from its heavy TiVO promotions in H114. However longer term, we do not believe Com Hem will be able to reach a penetration of more than 40% in 2015, as the threat from the IP-based streaming services/OTT players.
* **Armed to compete** — Com Hem management stated on the 3Q call that “they do not feel threatened by Telia’s new Fiber strategy” and seem confident they can compete in 100% of their footprint (competitor infrastructure in Com Hem’s footprint is 33% DSL, 55% FTTB and 12% FTTH). We believe that Com Hem will be successful in taking DSL market share, with its upgraded superior entry speeds (at 50Mbits/s) and new attractive bundling/promotional activities. However in the rest of their footprint, we believe Com Hem will face a tougher time in the rest of their footprint, where FTTB can quite cheaply be converted to the superior FTTH upon customers demand. A game changer would be a quadplay launch from either Telia, Telenor or Com Hem. On the 3Q call, Com Hem did not seem to be in a rush to launch quadplay, although it is still very much in their medium term plan.
* **Forecast Changes** —We have decreased our 2014 EBITDA margin to reflect increased SAC costs incurred in 3Q14 which we assume repeats in 4Q14 due to seasonal promotions. These changes impact our bottom line in the short term but we do not change our valuation as the increased costs help Com Hem to gain further market share.
* **Neutral, price target of SEK 54** —We believe that the improving revenues trends will be sustainable in 2015, benefitting from a solid outlook for Swedish broadband demand, higher broadband ARPU on speed upselling, an attractive marketing concept in TV and broadband (focusing on bundles), broadband price increases to come through in H115 and the push into B2B (to be accelerated significantly in 2015). Com Hem’s valuation is decent on most metrics, helped by Com Hem’s improving credit profile, now trading at a discount to the sector on 2015 FCF yield (5.4%) and EV/OpFCF (16.5x). However, we highlight that the broader portfolio carries significant structural OTT risk in pay TV. Furthermore, we believe that, despite TDC stating that it would be advantageous to have a Scandinavian cable presence, that TDC would have difficulties funding an acquisition of Com Hem (suggested in a Reuters article on the 5th Dec 2014).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Com Hem Holding (SEK)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (SKrM) | 4,562.0 | 4,448.2 | 4,829.4 | 4,948.1 | 4,979.0 |
| Net Income (SKrM) | -596.6 | -770.9 | 151.9 | 123.7 | 226.3 |
| Diluted EPS (SKr) | -2.87 | -3.71 | 0.73 | 0.60 | 1.09 |
| Diluted EPS (Old) (SKr) | -2.87 | -3.72 | 1.55 | 0.41 | 0.90 |
| PE (x) | -20.8 | -15.9 | 80.5 | 98.9 | 54.1 |
| EV/EBITDA (x) | na | 11.3 | 10.0 | 8.7 | 8.5 |
| DPS (SKr) | 0.00 | 0.00 | 1.00 | 0.90 | 2.07 |
| Net Div Yield (%) | 0.0 | 0.0 | 1.7 | 1.5 | 3.5 |

## Strong 2015 operating outlook

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| Figure 180. Com Hem forecasts  SEKm expect per share items. We use 2014 Reported EPS which includes an exceptional SEK-530m due to after tax IPO costs and refinancing costs, as we believe this is what consensus currently shows |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 4,562 | 4,448 | 4,829 | 4,948 | 4,979 | 4,995 | 4,995 | | *growth, yoy* |  | (2.5%) | 8.6% | 2.5% | 0.6% | 0.3% | (0.0%) | | Operating costs | (2,330) | (2,248) | (2,540) | (2,608) | (2,624) | (2,672) | (2,672) | | *growth, yoy* |  | (3.5%) | 13.0% | 2.7% | 0.6% | 1.9% | (0.0%) | | **EBITDA** | **2,232** | **2,200** | **2,289** | **2,340** | **2,355** | **2,323** | **2,323** | | *growth, yoy* |  | (1.4%) | 4.0% | 2.2% | 0.6% | (1.4%) | (0.0%) | | *margin* |  | *49.5%* | *47.4%* | *47.3%* | *47.3%* | *46.5%* | *46.5%* | |  |  |  |  |  |  |  |  | | EBIT | 819 | 849 | 855 | 871 | 876 | 839 | 839 | | **Net income** | **(596)** | **(771)** | **152** | **124** | **226** | **285** | **316** | | Basic EPS | (2.87) | (3.71) | (1.82) | 0.60 | 1.09 | 1.38 | 1.52 | | ***Consensus EPS*** |  |  | ***(4.04)*** | ***0.80*** | ***1.64*** | ***2.61*** | ***2.49*** | | ***Consensus DPS*** |  |  | ***0.84*** | ***2.13*** | ***2.69*** | ***4.91*** | ***5.69*** | |  |  |  |  |  |  |  |  | | Capex | (874) | (997) | (1,013) | (934) | (892) | (834) | (817) | | of which: spectrum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | FCF pre min divs | (305) | 39 | (366) | 376 | 859 | 998 | 1,054 | | **FCF post min divs** | **(305)** | **39** | **(366)** | **376** | **859** | **998** | **1,054** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **12,381** | **13,043** | **8,237** | **8,069** | **7,398** | **6,830** | **6,274** | | Net debt/EBITDA | 5.5x | 5.9x | 3.6x | 3.4x | 3.1x | 2.9x | 2.7x | |
| Source: Powered by dataCentral |

## Significant upcoming events

* **Com Hem launching its B2B offering (expected to start in 1Q15).** Post the Phonera acquisition, Com Hem has stated it plans to make a big push in the B2B segment. Com Hem’s cable footprint is already connected to approximately 50% of all Swedish corporates and the strategy now is to incentivize these customers to take up Phonera services and migrate from DSL.
* **Convergence to be launched in Sweden.** Rhetoric from both Telia and Com Hem suggests that they will launch quadplay play offers in the medium term. We believe offering a quadplay bundle in a market that is used to having handset subsidies makes the offerings quite complex and that having a significant amount of physical stores is crucial. It could be a struggle for Com Hem to offer a quadplay bundle on par with scaled and established mobile peers such as Telia and Telenor.

Drillisch

## Perennially Misunderstood

* Company Update

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| --- | --- |
| **Buy/High Risk** | **1H** |
| Price (12 Dec 14) | €28.27 |
| Target price | €42.00 |
| Expected share price return | 48.6% |
| Expected dividend yield | 5.7% |
| **Expected total return** | 54.3% |
| Market Cap | €1,503M |
|  | US$1,874M |

|  |
| --- |
| Price Performance (RIC: DRIG.DE, BB: DRI GR) |
|  |

* **MBA MVNOs have their benefits** — Since the end of July the shares have been particularly lackluster. This could be expected from a company that trades at >17x 2014 EV/EBITDA and >30x P/E, having undertaken increased operational risk (committing to pay for capacity for which it currently has few customers and few directly relevant mediums of distribution). The MBA MVNO contract gives Drillisch the lowest unit pricing of all wholesale competitors, so long as the company is capable of reselling the capacity it buys. Drillisch has up to a 15 month head-start on the sale of own brand 4G plans over other wholesalers, and a guaranteed access to future technologies.
* **The Distribution Conundrum** —We find the company particularly cautious about revealing future plans as this gives competitors an incentive to attempt to negate their opportunities. This was visible during 3Q14, when other players ran more aggressive marketing campaigns than usual, knowing that Drillisch would launch aggressive LTE prices in 4Q14. This resulted in >1m net adds to postpaid mobile in Germany in 3Q14, a run-rate expected of traditionally stronger 4th quarter. A substantial shop portfolio purchased for a ‘symbolic price’ should help on this front, and we expect more announcements on this front in due course.
* **Yourfone and Guidance** —Drillisch signed a letter of intent to buy Yourfone (expected Jan-15), this substantially de-risks the capacity commitments for 2015, and provides a stable source of cash-flows from which to finance future customer acquisition. Company guidance is for the MBA MVNO contract to be EBITDA neutral for approx. 2 years, (Underlying increases in EBITDA come from incremental hurdle rate thresholds crossed). Any excess over guidance is likely to get re-invested in customer acquisition. We believe the price paid will be reasonable given that the sale benefits Tef De in 2 ways: 1) these customers are likely to churn at renewal on current Yourfone prices, and 2) it helps to fill the Drillisch capacity inorganically, which in the long term may bring forward the time where Drillisch fills its capacity.
* **Preferred Wholesale Play** —Traditional MVNO margins could come under pressure as data speeds increase and utilisation follows. We believe that MNOs will use the 4G opportunity to at first provide a differentiated offering and subsequently may offer 4G to MVNOs in order to increase usage, but will do so on a higher unit price basis than was done on 3G. This could have a substantial impact in Germany by allowing MNOs to recapture significant amounts of lost value from MVNOs. Drillisch is arguably the best placed of the MVNOs due to having guaranteed lowest pricing and first mover advantage to address the low end segment with 4G.

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| **Drillisch (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 323.7 | 290.5 | 287.3 | 421.1 | 520.9 |
| Net Income (€M) | 38.8 | 42.8 | 51.4 | 51.7 | 48.3 |
| Diluted EPS (€) | 0.76 | 0.89 | 0.97 | 0.89 | 0.83 |
| Diluted EPS (Old) (€) | 0.76 | 0.89 | 0.98 | 0.94 | 1.01 |
| PE (x) | 37.3 | 31.8 | 29.2 | 31.9 | 34.2 |
| EV/EBITDA (x) | 22.9 | 20.0 | 15.9 | 14.7 | 15.6 |
| DPS (€) | 1.30 | 1.60 | 1.60 | 1.60 | 1.60 |
| Net Div Yield (%) | 4.6 | 5.7 | 5.7 | 5.7 | 5.7 |

## Perennially Misunderstood

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| --- | --- | --- |
| Figure 181. Drillisch has seen a rapid ascent to extreme valuations, however we feel that earnings upside from the MBA MVNO contract are not yet fully captured (left axis/share; right axis index; end-06=100) |  | Figure 182. Historical PE is distorted by large non-operational results in previous years, currently 1.5x the Sector average (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 183. Consensus EPS should show marked improvements once the company fulfills its capacity requirements, 2013 had a large inorganic gain (€) |  | Figure 184. EBITDA consensus shows the possibility of a step change in profitability from the MBA MVNO contract (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

|  |
| --- |
| Figure 185. Drillisch forecasts  €m except per share items in € |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | | Revenue | 324 | 290 | 287 | 418 | 517 | 653 | | *growth, yoy* | (7.3%) | (10.3%) | (1.1%) | 45.7% | 23.6% | 26.2% | | Operating costs | (262) | (220) | (201) | (322) | (420) | (528) | | *growth, yoy* | (12.0%) | (16.1%) | (8.4%) | 60.0% | 30.4% | 25.7% | | **EBITDA** | **62** | **71** | **86** | **97** | **98** | **126** | | *growth, yoy* | 20.3% | 14.4% | 21.7% | 12.1% | 1.3% | 28.3% | | *margin* | *19.1%* | *24.4%* | *30.0%* | *23.1%* | *18.9%* | *19.2%* | |  |  |  |  |  |  |  | | EBIT | 55 | 61 | 76 | 77 | 73 | 101 | | **Net income** | **39** | **43** | **51** | **51** | **47** | **67** | | Basic EPS | 0.76 | 0.89 | 1.05 | 0.94 | 0.87 | 1.24 | | ***Consensus EPS*** | ***0.46*** | ***3.23*** | ***1.05*** | ***1.03*** | ***1.26*** | ***1.78*** | | DPS | 1.30 | 1.60 | 1.60 | 1.60 | 1.60 | 1.80 | | ***Consensus DPS*** | ***1.30*** | ***1.60*** | ***1.64*** | ***1.66*** | ***1.68*** | ***1.56*** | |  |  |  |  |  |  |  | | **FCF post min divs** | **40** | **6** | **61** | **(101)** | **50** | **64** | |  |  |  |  |  |  |  | | **Net cash / (Debt)** | **(188)** | **186** | **253** | **65** | **28** | **6** | | Net cash/EBITDA | (3.0x) | 2.6x | 2.9x | 0.7x | 0.3x | 0.0x | |
| Source: Company reports, Citi Research |

## Forecast Changes

In this note we make multiple changes to our underlying assumptions. These are driven by further company disclosures surrounding the costs that will be payable to Telefónica Deutschland. We decrease the modelled costs of the MBA MVNO contract substantially (by €80m per year in 2020 once the contract runs at 20% capacity). We also reduce our estimates of the amounts of subscribers needed to fill the extra capacity by 0.9m, to 3.1m again in line with further company disclosures.

We have altered our cost estimates for the distribution channel: we now forecast a larger drag to profitability in 2015 and 2016 due to the costs of running a large distribution network, with a comparatively small subscriber base to begin with. We then decrease our cost assumptions for distribution after 2020 as we assume some distribution rationalisation is possible once the 20% glide-path is completed.

We leave our Target Price at €42, which we believe reflects a fair value for successful implementation of the MBA MVNO contract, and the aforementioned changes net down to give only small changes to Net Income and Cashflows. Our Net income estimates for 2014-2016 change by €0m / +€2m / -€5m, which is 0% / 4% / -10% respectively.

## Significant upcoming events

* **4Q14 Results:** During this results presentation, the market will get feedback on the launch of LTE packages on the existing Drillisch distribution channels.
* **1H15 Results:** We expect the shop strategy to be described in detail
* **FY15 Results:** By the end of 2015 we believe there will be enough data points in order to properly assess the costs and pace of customer acquisition vs. the requirements of the glide-path in order to pass judgment on the ability of the company to fulfill its growth expectations. Future profitability will also be easier to extrapolate, providing more certainty over valuation.

## Distribution: Think Differently

Drillisch recently underwent a capital increase, where it raised €143m from selling the 10% of Treasury Shares that it was holding onto previously. We estimate the company will have cash at the end of the year of €254m, which will be used to fund the following outgoings: Yourfone €60-€75m (1Q15), Dividend €87m (2Q15), Upfront Tef De payment €150-160m (2Q15). In the press release the company stated that the proceeds will be used *‘to increase its financial flexibility in relation to general corporate purposes as well as in relation to business acquisitions.*’ In our view this means that we expect a further announcement in the near future to alleviate concerns over distribution.

Management have previously guided that they are comfortable running through the MBA MVNO era with debt up to 1.5x net debt / EBITDA, which on our estimates leaves approx. €50m that can be spent on another distribution venture (the remainder of the debt issuance will go towards paying uncovered dividends in 2016 and 2017).

We highlight 2 distribution ventures that already exist in Germany to show the range of possibilities that exist for Drillisch to consider when promoting its brand in 2015 and beyond, and that to focus on existing brands and c. 300 shops may miss the potential for a broader nationwide presence.

### The Telefónica Deutschland / Tchibo JV

Tef De has a 50/50 JV with the coffee chain Tchibo, where the coffee shops sell mobile phone contracts (among other non-coffee items) from its network of approx. 1,000 stores. Drillisch could consider entering an agreement with a nationwide retailer such that the retailer is incentivised to promote the unique new low cost 4G tariffs, at a price that is reasonable to Drillisch. The set-up of a JV would presumably require up-front capital commitments from both parties.

### The ProSiebenSat.1 / Pries24 Agreement

ProSeibenSat.1 runs various media for equity investment programmes, whereby it provides advertising airtime to companies in return for an equity ownership. Pries24 is 60% owned by the ProSeibenSat.1 group and we believe is a beneficiary of such media for equity deals, as it ran aggressive TV promotions during 3Q14. This however possibly precludes such a replica deal with Drillisch due to already vested interests. Drillisch has a unique product (cheap LTE tariffs) that no other wholesaler can replicate, as such finding a potential partner via these means may be a possibility, and should not be too expensive, so long as both parties can make adequate returns.

Freenet

## Headwinds in sight

* Company Update

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|  |

|  |  |
| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | €22.96 |
| Target price | €20.50 |
| Expected share price return | -10.7% |
| Expected dividend yield | 6.5% |
| **Expected total return** | -4.2% |
| Market Cap | €2,940M |
|  | US$3,663M |

|  |
| --- |
| Price Performance (RIC: FNTGn.DE, BB: FNTN GR) |
|  |

* **Challenge 1** — Freenet predominantly runs a business of being a re-seller of mobile phones, earning commission from MNO’s when customers sign contracts. Tef De has not yet retired the E-Plus brands and has made no indication of doing so soon. The average consumer is unlikely to know or care about the takeover. However, the number of MNO’s paying commission to Freenet has reduced from 4 to 3. In a rational scenario the MNO’s should be willing to pay less in total than they had been previously.
* **Challenge 2** — We believe that Freenet is currently predominantly selling DT contract phones. The ARPU is €20 excluding optional handset upgrade payments, which represents the lower end of the market. This is a segment that DT has tried increasingly to capture through its own Congstar brand. DT even went so far as to bring Congstar into some T-Mobile shops in April 2013, as opposed to being an on-line only brand. However a price comparison shows Congstar as uncompetitive vs. Freenet (and far more restrictive in the types of tariffs on offer). These low ARPU customers are worth more to DT under the Congstar brand than obtained via Freenet, with the only issue that cutting prices further in Congstar risks diluting the premium T-Mobile brand. We believe that much of the continued success of Freenet is reliant on DT continuing to value this as a distribution channel for the low end subscribers despite taking increasing steps to address this market itself.
* **Saving the best till last: Challenge 3** — Having pointed out that the average ARPU hints to the lower end of the market, the key challenge to Freenet will be when Drillisch launches its own high street shop chain, presumably offering the best value tariffs (in-line with its on-line strategy). This will also damage a key USP of Freenet, which is that it is currently the place to go to on the high street to knowingly get the cheapest high street tariff across all the networks. Once Drillisch launch their shop chain, we expect this USP to be lost.
* **Challenges reflected in valuation** — The shares trade at 9x 2014 EV/EBITDA and 12x EV/NOPAT, a valuation discount that shows management will have to demonstrate their ability to navigate the short term challenges before these shares become closer to fully valued. We believe there is risk to earnings that are not yet reflected in consensus estimates, but remain Neutral due for the time being on valuation grounds. In the short term there is also a benefit to come in 2016 as the company has the opportunity to refinance its expensive debt.

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| **Freenet (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 3,089.0 | 3,193.3 | 2,982.3 | 2,791.1 | 2,691.2 |
| Net Income (€M) | 246.5 | 239.1 | 232.5 | 216.7 | 224.3 |
| Diluted EPS (€) | 1.92 | 1.87 | 1.82 | 1.69 | 1.75 |
| Diluted EPS (Old) (€) | 1.92 | 1.87 | 1.82 | 1.69 | 1.75 |
| PE (x) | 11.9 | 12.3 | 12.6 | 13.6 | 13.1 |
| EV/EBITDA (x) | 9.1 | 8.9 | 8.7 | 9.0 | 9.3 |
| DPS (€) | 1.35 | 1.45 | 1.55 | 1.55 | 1.55 |
| Net Div Yield (%) | 5.9 | 6.3 | 6.8 | 6.8 | 6.8 |

## Headwinds in sight

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| Figure 186. Freenet has outperformed the market substantially and is continuing to do so(left axis €/share; right axis index: end-2006=100) |  | Figure 187. Freenet trades below the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 188. Consensus EPS shows modest incremental improvements (€) |  | Figure 189. EBITDA consensus shows modest incremental improvements (€m) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| --- |
| Figure 190. Freenet forecasts  €m except per share items in € |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | | Revenue | 3,089 | 3,193 | 2,982 | 2,791 | 2,691 | 2,665 | | *growth, yoy* | (4.0%) | 3.4% | (6.6%) | (6.4%) | (3.6%) | (1.0%) | | Operating costs | (2,737) | (2,836) | (2,615) | (2,441) | (2,355) | (2,332) | | *growth, yoy* | (5.0%) | 3.6% | (7.8%) | (6.7%) | (3.5%) | (1.0%) | | **EBITDA** | **352** | **357** | **367** | **351** | **336** | **333** | | *growth, yoy* | 4.7% | 1.5% | 2.8% | (4.5%) | (4.2%) | (0.8%) | | *margin* | *11.4%* | *11.2%* | *12.3%* | *12.6%* | *12.5%* | *12.5%* | |  |  |  |  |  |  |  | | EBIT | 203 | 301 | 301 | 287 | 276 | 276 | | **Net income** | **246** | **239** | **233** | **217** | **224** | **231** | | Basic EPS | 1.92 | 1.87 | 1.82 | 1.69 | 1.75 | 1.80 | | ***Consensus EPS*** | ***1.35*** | ***1.87*** | ***1.88*** | ***1.91*** | ***1.98*** | ***2.11*** | | DPS | 1.35 | 1.45 | 1.55 | 1.55 | 1.55 | 1.55 | | ***Consensus DPS*** | ***1.35*** | ***1.45*** | ***1.53*** | ***1.60*** | ***1.64*** | ***1.79*** | |  |  |  |  |  |  |  | | Capex | (21) | (22) | (25) | (25) | (24) | (24) | | FCF pre min divs | 227 | 221 | 246 | 229 | 213 | 243 | | **FCF post min divs** | **227** | **221** | **246** | **229** | **213** | **243** | |  |  |  |  |  |  |  | | **Net debt & pensions** | **478** | **472** | **460** | **430** | **415** | **370** | | Net debt/EBITDA | 1.4x | 1.3x | 1.3x | 1.2x | 1.2x | 1.1x | |
| Source: Powered by dataCentral |

## Significant upcoming events

4Q14 is likely to be unsurprising, with all heads turned to how the company will fare amongst a changed competitive landscape in 2015.

Inmarsat

## Three Business Angles all Potentially Positive

* Company Update

|  |
| --- |
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|  |

|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | £7.75 |
| Target price | £8.70 |
| *from £8.25* |  |
| Expected share price return | 12.3% |
| Expected dividend yield | 4.2% |
| **Expected total return** | 16.5% |
| Market Cap | £3,474M |
|  | US$5,462M |

|  |
| --- |
| Price Performance (RIC: ISA.L, BB: ISAT LN) |
|  |

* **Retain Buy** — We retain our Buy rating and raise our cycle-adjusted DCF-based target price to 870p (from 825p) by advancing the pricing date and raising the probability of full exploitation of the US spectrum lease to 50% from 33% (itself worth around 30p/share). We see attractive growth potential as Global Xpress transitions (with two more satellite launches) from regional to global service, the company receives (we expect) the necessary permissions to proceed with its EU-wide airline passenger connectivity hybrid network and sees income continue from its US spectrum lease. In addition, the company having taken the pain of sharp US government cuts, should be well positioned should that start to recover.
* **Global Xpress** — Inmarsat expects to achieve global commercial service with Global Xpress early in 2H15 with the second satellite launch set to come in late January 2015 and the third shortly after. The company is targeting $500m in revenue from GX by the fifth anniversary of global commercial service introduction and growth of 8-12% pa in wholesale MSS revenue from 2014-16. Over the same period we are forecasting 12% pa growth from the Maritime unit but small declines in Government and in Enterprise. As well as expecting demand from the maritime market the company says it is responding to rising customer interest in GX services for aviation passenger connectivity.
* **Aviation** — European aviation passenger connectivity is a significant opportunity for the company. We forecast revenue from Aviation to rise by 80% between 2014 and 2020, with EBITDA margin declining modestly from 88% that we forecast for 2014. Inmarsat has confirmed that it has received S-band MSS license authorisation in 23 of the 28 EU member states and complementary ground component licenses in one of the big five EU member states. For cockpit connectivity Inmarsat plans to leverage its base of over 11,000 Classic Aero terminals installed on wide-body aircraft. It is offering a free global airline tracking service to those aircraft that have its system installed, and has announced proposals to offer an enhanced position reporting facility (commercially), as well as a flight recorder in the cloud service which could commence upstreaming based on certain trigger events, such as a departure from flight plan.
* **US spectrum lease** — We treat the US spectrum lease as exceptional and on a when received basis. As a result the 2015E multiples do not reflect this source of income, with an impact on EV/EBITDA of 2.1 and on PE of 10. As Inmarsat is committed to the lease the unexpectedly high prices being seen in the AWS3 auction that is currently underway in the US do not have an impact on the peak value but is does suggest that it is more likely that the spectrum will be put into use, implying that we can be more confident that the lease will be honoured.

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|  |  |  |  |  |  |
| **Inmarsat plc (USD)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales ($M) | 1,337.8 | 1,261.9 | 1,195.1 | 1,263.6 | 1,359.6 |
| Profit Before Tax ($M) | 293.6 | 189.1 | 520.9 | 180.9 | 202.8 |
| Diluted EPS ($) | 0.70 | 0.63 | 0.44 | 0.32 | 0.36 |
| Diluted EPS (Old) ($) | 0.70 | 0.63 | 0.44 | 0.32 | 0.36 |
| PE (x) | 17.5 | 19.3 | 27.7 | 38.5 | 34.3 |
| EV/EBITDA (x) | 10.0 | 11.0 | 11.6 | 11.5 | 11.0 |
| DPS ($) | 0.44 | 0.47 | 0.49 | 0.51 | 0.57 |
| Net Div Yield (%) | 3.6 | 3.8 | 4.0 | 4.2 | 4.6 |

## Three Business Angles all Potentially Positive

|  |  |  |
| --- | --- | --- |
| Figure 191. Inmarsat has outperformed the European telecoms sector YTD in 2014 (left axis p/share; right axis index: end-07=100) |  | Figure 192. Inmarsat trades at around a 50% premium to the European telecoms sector on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 193. Consensus EPS rise has lately been falling ($, year to Dec) |  | Figure 194. EBITDA consensus has lately stabilised ($bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| --- |
| Figure 195. Inmarsat forecasts, $m, year to Dec |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | |  | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | **2019E** | | **Revenues** |  |  |  |  |  |  |  | | Maritime | 525 | 596 | 667 | 747 | 837 | 921 | 994 | | Government | 408 | 319 | 309 | 314 | 318 | 321 | 324 | | Enterprise | 222 | 168 | 161 | 161 | 162 | 163 | 164 | | Aviation | 73 | 90 | 103 | 113 | 125 | 135 | 145 | | Central Services | 22 | 23 | 24 | 24 | 24 | 25 | 25 | | **Total MSS** | **1,250** | **1,195** | **1,264** | **1,360** | **1,466** | **1,564** | **1,653** | |  |  |  |  |  |  |  |  | | LightSq | 12 | 74 | 0 | 0 | 0 | 0 | 0 | | **Total Revenue** | **1,262** | **1,269** | **1,264** | **1,360** | **1,466** | **1,564** | **1,653** | |  |  |  |  |  |  |  |  | | **EBITDA** |  |  |  |  |  |  |  | | Maritime | 417 | 450 | 494 | 553 | 619 | 681 | 736 | | Government | 268 | 211 | 204 | 207 | 210 | 212 | 214 | | Enterprise | 116 | 99 | 94 | 94 | 94 | 95 | 95 | | Aviation | 67 | 79 | 88 | 95 | 103 | 109 | 116 | | Central Services | (227) | (205) | (225) | (248) | (250) | (253) | (255) | | **Total MSS** | **640** | **634** | **655** | **701** | **776** | **845** | **906** | |  |  |  |  |  |  |  |  | | LightSq | 9 | 74 | 0 | 0 | 0 | 0 | 0 | | **Total EBITDA** | **649** | **708** | **655** | **701** | **776** | **845** | **906** | |  |  |  |  |  |  |  |  | | D&A | (232) | (290) | (354) | (371) | (374) | (376) | (378) | | **EBIT** | **417** | **344** | **301** | **330** | **402** | **469** | **528** | | Margin, % | 33.0% | 27.1% | 23.8% | 24.3% | 27.4% | 30.0% | 32.0% | |  |  |  |  |  |  |  |  | | Interest | (49) | (90) | (123) | (130) | (134) | (134) | (132) | | Exceptional/US spectrum | (181) | 264 | 0 | 0 | 0 | 0 | 0 | | Tax | (87) | (56) | (38) | (43) | (57) | (71) | (84) | | **Net income** | **102** | **462** | **142** | **159** | **213** | **266** | **314** | | **Adusted net income** | **283** | **197** | **142** | **159** | **213** | **266** | **314** | |  |  |  |  |  |  |  |  | | **Reported EPS ($)** | **0.23** | **1.03** | **0.32** | **0.36** | **0.48** | **0.59** | **0.70** | | Adjusted EPS ($) | 0.63 | 0.44 | 0.32 | 0.36 | 0.48 | 0.59 | 0.70 | | **DPS ($)** | 0.47 | 0.49 | 0.51 | 0.57 | 0.62 | 0.68 | 0.72 | |  |  |  |  |  |  |  |  | | Movement in WC/other | (34) | 54 | (4) | (4) | (4) | (4) | (4) | | Interest paid | (98) | (110) | (123) | (130) | (134) | (134) | (132) | | Tax paid | (20) | (31) | (38) | (43) | (57) | (71) | (84) | | Capex inc capitalisation | (581) | (474) | (419) | (404) | (339) | (289) | (294) | | **Free cash flow (company)** | **(84)** | **73** | **70** | **120** | **242** | **346** | **392** | |  |  |  |  |  |  |  |  | | **Net financial debt/(cash)** | **1,842** | **2,027** | **2,180** | **2,299** | **2,320** | **2,264** | **2,184** | | Net Debt/EBITDA | 2.8x | 2.9x | 3.3x | 3.3x | 3.0x | 2.7x | 2.4x | |
| Source: Company Reports and Citi Research Estimates |

## Significant upcoming events

* We expect both remaining Global Xpress satellite launches to come in 1H15. Inmarsat has commissioned a fourth GX satellite which serves as a backup for now but could be deployed in addition to the first three should demand be sufficiently strong.
* Permissions are pending for the use of Inmarsat’s S Band spectrum for the European aviation cabin connectivity service.

## Valuation

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| --- |
| Figure 196. Inmarsat cycle adjusted DCF comes to £8.70 per share  $m, except per share items in $ or £, year to Dec |
| |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to December** | **2010** | **2011** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | **2019E** | **2020E** | |  |  |  |  |  |  |  |  |  |  |  |  | | **EBITDA** | **696.1** | **854.4** | **694.7** | **648.8** | **634.3** | **654.8** | **701.2** | **775.9** | **844.5** | **906.3** | **951.1** | | Change in working capital | 176.7 | 136.8 | 32.2 | (62.4) | 53.9 | (4.0) | (4.0) | (4.0) | (4.0) | (4.0) | (4.0) | | Capex | (166.7) | (509.7) | (460.1) | (551.2) | (450.0) | (400.0) | (385.0) | (320.0) | (270.0) | (275.0) | (310.0) | | Tax paid | (42.8) | (112.6) | (69.2) | (20.3) | (30.9) | (38.0) | (42.6) | (57.0) | (71.0) | (84.0) | (93.4) | | Interest paid | (92.0) | (76.7) | (95.7) | (98.0) | (110.2) | (123.0) | (130.1) | (133.9) | (134.0) | (131.8) | (130.5) | | Dividends received | (86.9) | 0.0 | 0.0 | 28.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | Dividends paid to minorities | (0.1) | (0.1) | (0.3) | (1.2) | (1.3) | (1.4) | (1.5) | (1.6) | (1.8) | (1.9) | (2.0) | | **FCFE** | **484.2** | **292.1** | **101.6** | **(55.9)** | **95.7** | **88.4** | **138.0** | **259.3** | **363.7** | **409.5** | **411.2** | | ***Adjustments*** |  |  |  |  |  |  |  |  |  |  |  | | Add back cash interest paid | 92.0 | 76.7 | 95.7 | 98.0 | 110.2 | 123.0 | 130.1 | 133.9 | 134.0 | 131.8 | 130.5 | | Tax shield on interest | (19.3) | (16.1) | (20.1) | (20.6) | (23.1) | (25.8) | (27.3) | (28.1) | (28.1) | (27.7) | (27.4) | | Dividends received/paid | 87.1 | 0.1 | 0.3 | (27.2) | 1.3 | 1.4 | 1.5 | 1.6 | 1.8 | 1.9 | 2.0 | | **Unlevered FCF (FCFF)** | **643.9** | **352.8** | **177.5** | **(5.7)** | **184.1** | **187.0** | **242.3** | **366.8** | **471.4** | **515.6** | **516.2** | |  |  |  |  |  |  |  |  |  |  |  |  | | *Discount factors* |  |  |  |  |  | *1.04* | *0.96* | *0.89* | *0.83* | *0.76* | *0.71* | | **Shares outstanding (2015E)** |  |  |  | **448.3** |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | **$m** | **$/share** |  |  |  |  |  |  |  | | Value of years 1-8 cash flows |  |  | 2,733.7 | 6.1 |  |  |  |  |  |  |  | | Terminal value |  |  | 4,808.3 | 10.7 |  |  |  |  |  |  |  | | US Spectrum lease | 50.0% |  | 763.5 | 1.7 |  |  |  |  |  |  |  | | Unpaid dividends |  |  | 0.0 | 0.0 |  |  |  |  |  |  |  | | **Enterprise value** |  |  | **8,305.5** | 18.5 |  |  |  |  |  |  |  | | Net Debt (2015) |  |  | (2,179.9) | (4.9) |  |  |  |  |  |  |  | | **Equity value (USD)** |  |  | **6,125.6** | **13.7** |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  | | **FX (USD/GBP)** |  |  |  | **1.57** |  |  |  |  |  |  |  | | **Price target (£)** |  |  |  | **8.7** |  |  |  |  |  |  |  | |
| Source: Company Reports and Citi Research Estimates |

Telecity

## Changing of the guard

* Company Update

|  |
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|  |

|  |  |
| --- | --- |
| **Buy** | **1** |
| Price (12 Dec 14) | £7.89 |
| Target price | £9.20 |
| *from £9.00* |  |
| Expected share price return | 16.7% |
| Expected dividend yield | 2.3% |
| **Expected total return** | 19.0% |
| Market Cap | £1,599M |
|  | US$2,514M |

|  |
| --- |
| Price Performance (RIC: TCY.L, BB: TCY LN) |
|  |

* **Raise our TP to £9.20** — The new Telecity management has been very forthcoming that it intends to focus on capital allocation, and we expect the large market update and explanation of future strategy to take place at the full year results (11th February). As we outlined in our report: [Growth renewed, buying opportunity remains](https://ir.citi.com/4ubYTBaxLq25zhAEuQjTJN8ka1w3e4r6CyDFShwargWrBy8yMPM5JYa2Xb1j6BthxX2DRZULzcA%3d), 30 May 2014, we see the ability for the company to implement a sizeable share buyback program. We now bring forward our estimate of when this takes place, bringing it forward by a year. We assume a £100m buyback, reducing the share count by 12.5m, and leaving company defined net debt (including finance leases) at 2.3x 2015E EBITDA. We update our TP accordingly.
* **Change in focus** — We expect the new management team to change the course of the company fairly substantially. We expect that cash returns to shareholders will be greater as the company focuses on growth at a reasonable price, instead of growing as fast as possible. This change in focus should also help to improve yields on sites that are already built out. We expect future expansion to focus on towns that are key strengths in the Telecity portfolio, which include: London, Stockholm, Amsterdam and Dublin.
* **How long will Churn be a topic of discussion?** — At the start of 2014, we were advised that 1H14 would be a period of continued high churn (repeating the experience of 2013), but that this was from a wave of contract renewals that was due to be lapped in 2H14. The 3Q14 results were not overly encouraging in this respect as there were still discussions about elevated churn. We expect the new CFO, previously from KPN, to be able to bring churn management skills into this company that it may have lacked before. A key recent example is aligning the incentives of the sales force to reward both contract renewals as well as new contracts, were previously only the latter were incentivised. This is reflected in higher SG&A spend.
* **Forecast Changes** —We update for the latest FX rates, which reduces revenue in 2014 to £343m, the bottom end of the range provided during the 3Q14 call. We have also increase the staff costs for 2015 in line with hiring of above country sales teams and an increase in incentives on contract renewals. The impact is a decrease in the Adjusted PBT (ex Intangible Amortisation) of -£1m / -£10m / -£11m in 2014-2017, which is -1% / -9% / -9% respectively. We increase the margins earned by the group in the latter forecast years, reflecting the focus on growth in high return countries.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Telecity Group Plc (GBP)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (£M) | 283.0 | 325.6 | 343.4 | 373.6 | 411.9 |
| Profit Before Tax (£M) | 76.2 | 85.6 | 96.8 | 98.2 | 111.3 |
| Diluted EPS (p) | 31.0 | 35.2 | 37.8 | 39.4 | 45.7 |
| Diluted EPS (Old) (p) | 31.0 | 35.2 | 38.1 | 41.9 | 47.1 |
| PE (x) | 25.4 | 22.4 | 20.9 | 20.0 | 17.3 |
| EV/EBITDA (x) | 14.0 | 12.5 | 11.8 | 11.4 | 10.4 |
| DPS (p) | 7.5 | 10.5 | 13.5 | 16.9 | 21.1 |
| Net Div Yield (%) | 1.0 | 1.3 | 1.7 | 2.1 | 2.7 |

## Changing of the guard

|  |  |  |
| --- | --- | --- |
| Figure 197. Telecity has lately lost some relative outperformance against the sector (left axis p/share; right axis index: end-06=100) |  | Figure 198. Telecity trades slightly above the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 199. Consensus EPS continues to rise, but mid-year downgrades are taking hold (p) |  | Figure 200. EBITDA consensus rising less quickly (£m) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

|  |
| --- |
| Figure 201. Telecity forecasts  £m expect per share items in UKp |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | | Revenue | 283 | 326 | 343 | 374 | 412 | 451 | | *growth, yoy* | 18.0% | 15.1% | 5.5% | 8.8% | 10.3% | 9.5% | | Operating costs | (153) | (175) | (182) | (202) | (220) | (238) | | *growth, yoy* | 14.8% | 14.0% | 4.2% | 10.8% | 8.9% | 8.1% | | **EBITDA** | **129** | **151** | **161** | **172** | **192** | **213** | | *growth, yoy* | 22.0% | 16.3% | 6.9% | 6.6% | 11.9% | 11.0% | | *margin* | *45.8%* | *46.2%* | *46.9%* | *45.9%* | *46.6%* | *47.3%* | |  |  |  |  |  |  |  | | EBIT | 87 | 100 | 107 | 112 | 127 | 140 | | **Net income** | **63** | **71** | **77** | **78** | **88** | **97** | | Basic EPS | 31.66 | 35.33 | 37.82 | 39.42 | 45.68 | 50.39 | | ***Consensus EPS*** | ***31.00*** | ***36.50*** | ***38.77*** | ***43.32*** | ***49.23*** | ***53.10*** | | DPS | 7.50 | 10.50 | 13.50 | 16.88 | 21.09 | 26.37 | | ***Consensus DPS*** | ***7.50*** | ***10.50*** | ***13.54*** | ***16.70*** | ***21.16*** | ***21.15*** | |  |  |  |  |  |  |  | | **Net debt & pensions** | **253** | **300** | **301** | **397** | **380** | **356** | | Net debt/EBITDA | 2.0x | 2.0x | 1.9x | 2.3x | 2.0x | 1.7x | |
| Source: Powered by dataCentral |

## Significant upcoming Events

All eyes will be on the Full Year results on the 11th February. We expect consensus to factor in an announcement of a sizeable buyback, but this is likely to have been behind the recent re-rating.

New management will also outline their strategic vision for the immediate future, having delayed from doing this during the September CMD due to recent management changes.

Telenet Group Holdings NV (TNET.BR)

## Better than you think

* Company Update

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| **Buy** | **1** |
| Price (12 Dec 14) | €45.19 |
| Target price | €50.00 |
| Expected share price return | 10.6% |
| Expected dividend yield | 8.9% |
| **Expected total return** | 19.5% |
| Market Cap | €5,275M |
|  | US$6,574M |

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| Price Performance (RIC: TNET.BR, BB: TNET BB) |
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* **We reiterate our Buy rating at a target price of €50.0** — We believe Telenet is well-positioned in the Belgian fixed market and do not expect it to be significantly impacted by Mobistar’s launch of cable. Despite reduced top-line growth expectations vs. historical levels, Telenet’s declining capex leads us to forecast robust OpFCF growth. We expect Telenet to benefit from consolidation or become the target itself. Telenet trades at a discount to the sector on 2015/16e EV/OpFCF at 16.0x/15.2x (sector: 17.9x/18.5x).
* **An impressive cash machine** — Growth at Telenet has come down from historical levels and we forecast 2015-18e revenue and EBITDA CAGRs both at +3.5% thanks to mobile, sustainable momentum in fixed and growth in business. EBITDA growth paired with continuing reduction in capex (we estimate 2015-18e CAGR at -2.0%), leads us to forecast 2015-18e OpFCF CAGR at +7.0%.
* **Sustainable momentum in fixed; Opportunity in mobile** — We see Telenet as a well-managed cable asset and attractively positioned in the duopolistic fixed market. Telenet has a strong cable network and differentiates on speed, content, TV functionality and innovative products. We expect it to sustain its momentum in fixed and see further opportunity to sell mobile to its cable subscriber base.
* **Telenet is less exposed to Mobistar’s entry into the fixed market** — given its focus on product differentiation and strong brand image. Telenet is able to offer content (including football) and free supplementary services (like Wifi hotspots, Yelo TV) as part of their bundles which Mobistar may not be able to replicate. Moreover, Telenet can counter Mobistar’s lower prices by promotional discounts which are not accounted for under the current wholesale reference price.
* **The consolidator and the beneficiary…**We believe that Telenet did not propose a special dividend partly to provide it with some flexibility to take part in consolidation in the Belgian market. We believe that Telenet could benefit from acquiring in both cable and mobile — cable to bring it a national footprint and closer parity with Belgacom; mobile to deliver cost synergy, market repair and a more effective quad-play offer, as well as removing potential competition in the fixed line market.
* **…or the target** — We believe that Liberty’s acquisition of a stake in Ziggo is a step towards consolidating cable operators in Dutch-speaking regions. We don’t incorporate any M&A premium in our valuation as Liberty already controls Telenet with its 58% stake. However the risk of a new tender offer from Liberty should provide downside support.

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| **Telenet Group Holding NV (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 1,488.8 | 1,641.3 | 1,714.0 | 1,795.7 | 1,864.0 |
| Net Income (€M) | 76.1 | 80.5 | 129.3 | 173.9 | 178.7 |
| Diluted EPS (€) | 0.67 | 0.70 | 1.15 | 1.55 | 1.60 |
| Diluted EPS (Old) (€) | 0.67 | 0.70 | 1.15 | 1.55 | 1.60 |
| PE (x) | 67.1 | 64.3 | 39.3 | 29.1 | 28.3 |
| EV/EBITDA (x) | 10.5 | 10.3 | 10.2 | 9.9 | 9.7 |
| DPS (€) | 7.90 | 0.00 | 4.00 | 3.50 | 3.00 |
| Net Div Yield (%) | 17.5 | 0.0 | 8.9 | 7.7 | 6.6 |

## Better than you think

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| Figure 202. Telenet has underperformed the sector in the last few months (left axis/share; right axis index; end-06=100) |  | Figure 203. Telenet now trades at a premium to the sector on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 204. Consensus EPS has come down (€) |  | Figure 205. EBITDA consensus has remained broadly stable (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 206. Compared to its incumbent and wireless peers in Europe, Telenet trades above the median on all metrics and above the upper quartile for some on our 2015 and 2016 estimates  €/share |
|  |
| Source: Powered by dataCentral, Citi Research |

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| Figure 207. Telenet forecasts  €m except for per share data |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | | Revenue | 1,489 | 1,641 | 1,714 | 1,796 | 1,864 | 1,930 | 1,991 | | *growth, yoy* | 14.6% | 10.2% | 4.4% | 4.8% | 3.8% | 3.5% | 3.2% | | Operating costs | (719) | (844) | (833) | (871) | (902) | (933) | (961) | | *growth, yoy* | 12.2% | 17.4% | (1.3%) | 4.6% | 3.5% | 3.5% | 2.9% | | **EBITDA** | **770** | **797** | **881** | **925** | **962** | **996** | **1,030** | | *growth, yoy* | 17.0% | 3.5% | 10.5% | 4.9% | 4.1% | 3.6% | 3.4% | | *margin* | *51.7%* | *48.6%* | *51.4%* | *51.5%* | *51.6%* | *51.6%* | *51.7%* | |  |  |  |  |  |  |  |  | | EBIT | 390 | 389 | 518 | 544 | 569 | 595 | 625 | | **Net income** | **76** | **80** | **129** | **174** | **179** | **189** | **205** | | Reported Basic EPS | 0.29 | 1.02 | 1.15 | 1.55 | 1.60 | 1.69 | 1.83 | | ***Consensus EPS*** |  | ***1.27*** | ***1.18*** | ***1.69*** | ***1.95*** | ***1.83*** | ***2.13*** | | Stock repurchase | 45 | 0 | 50 | 0 | 0 | 0 | 0 | | DPS | 7.90 | 0.00 | 4.00 | 3.50 | 3.00 | 3.00 | 3.00 | |  |  |  |  |  |  |  |  | | Capex | (321) | (367) | (360) | (360) | (354) | (347) | (338) | | **FCF** | **249** | **223** | **270** | **237** | **239** | **271** | **309** | |  |  |  |  |  |  |  |  | | **Net debt & pensions** | **3,099** | **3,763** | **3,804** | **4,105** | **4,288** | **4,382** | **4,439** | | Net debt/EBITDA | 4.0x | 4.7x | 4.3x | 4.4x | 4.5x | 4.4x | 4.3x | |
| Source: Company reports, Citi Research |

## Significant upcoming events

* **4Q14 results** – Telenet is expected to publish its 4Q14 results on 26 February 2015.
* **Launch of cable by Mobistar-** We believe that Mobistar will launch cable on a test basis by 4Q14 with commercial launch in 1HY 2015.
* **Regulator’s decision on Mobistar’s request on retail minus wholesale price.** Mobistar has requested the regulator to take into account of the supplementary services (WIFI hotspots, webspace, Yelo TV etc) provided by cable operators as well as promotional discounts when arriving at the wholesale price for cable. The decision on this is expected in 1H 2015.
* **Potential M&A** – Timing remains uncertain.

United Internet

## Will mobile margins squeeze?

* Company Update

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| --- |
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| --- | --- |
| **Neutral** | **2** |
| Price (12 Dec 14) | €36.30 |
| Target price | €33.50 |
| Expected share price return | -7.7% |
| Expected dividend yield | 1.5% |
| **Expected total return** | -6.2% |
| Market Cap | €7,441M |
|  | US$9,274M |

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| Price Performance (RIC: UTDI.DE, BB: UTDI GR) |
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* **Mobile** — UI increased the speed supplied to consumers in their packaged bundles progressively through 2014. This speed upgrade is applied to all customers. Traditional MVNO contracts work on a pay as you go model, therefore we expect that upgrading speeds results in higher data usage, which in turn results in higher payments to Vodafone / Tef De. The fundamental question for UI mobile is what terms Vodafone will agree to when renewing the given the pain experienced in their own brand market share which needs to be considered against the c.15% of Germany EBITDA that UI currently contribute. Promotional behavior between now and contract renewal and incremental damage to the Vodafone own brand subscriber base could complicate the renewal.
* **Fixed** — We expect the fixed line to continue to gain share due to the pricing differentials within the fixed telephony and broadband market, as DT delay any re-pricing due to the impact this would have on their back-book. We believe Vodafone and Unity have ample opportunity to keep pricing and market share gains in-check via cable competition, and Tef De should begin to challenge more once it reorganises its own fixed line offers. The addition of IPTV packages in 2015 could open up the product to an incremental subscriber base. Synergies available from the Versatel acquisition should help to improve fixed margins, whilst also giving leverage in pricing negotiations.
* **Applications** — We see no short term solution for the lower growth in Applications as cheaper competition is now providing better alternatives to the 1&1 product suite.
* **Our Estimates are far above Consensus** —We believe consensus has yet to factor in possible margin improvements from the fall in investments in new business fields and the increase in access margins, given that incremental SAC is now offset against a sizeable subscriber base. Some estimates clearly do not yet consolidate Versatel due to the magnitude of the difference. Our latest EBITDA estimates for 2015 and 2016 are €850m and €905m vs. current Bloomberg consensus of €737m and €840m.

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| **United Internet AG (€)** | | | | | |
|  |  |  |  |  |  |
| **Year to 31 Dec** | **2012A** | **2013A** | **2014E** | **2015E** | **2016E** |
| Sales (€M) | 2,396.6 | 2,655.7 | 3,075.9 | 3,690.3 | 3,781.6 |
| Net Income (€M) | 107.8 | 206.4 | 470.2 | 440.4 | 473.1 |
| Diluted EPS (€) | 0.56 | 1.07 | 2.36 | 2.16 | 2.33 |
| Diluted EPS (Old) (€) | 0.56 | 1.07 | 2.36 | 2.16 | 2.33 |
| PE (x) | 65.3 | 34.1 | 15.4 | 16.8 | 15.6 |
| EV/EBITDA (x) | 22.3 | 18.1 | 13.0 | 8.5 | 7.7 |
| DPS (€) | 0.30 | 0.40 | 0.55 | 0.85 | 0.95 |
| Net Div Yield (%) | 0.8 | 1.1 | 1.5 | 2.3 | 2.6 |

## Will mobile margins squeeze?

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| Figure 208. United Internet has outperformed the sector (left axis p/share; right axis index: end-06=100) |  | Figure 209. United Internet trades slightly above the sector average on PE (1 year forward) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |
| Figure 210. Consensus EPS gapping up significantly (€) |  | Figure 211. EBITDA consensus reflects Versatel acquisition, and rapid improvement in Mobile EBITDA (€bn) |
|  |  |  |
| Source: DataStream |  | Source: DataStream |

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| Figure 212. United Internet forecasts  €m expect per share items in € |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Year to Dec** | **2012** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | | Revenue | 2,397 | 2,656 | 3,076 | 3,690 | 3,782 | 3,853 | | *growth, yoy* | 14.4% | 10.8% | 15.8% | 20.0% | 2.5% | 1.9% | | Operating costs | (2,053) | (2,249) | (2,510) | (2,841) | (2,877) | (2,921) | | *growth, yoy* | 18.7% | 9.5% | 11.6% | 13.2% | 1.3% | 1.6% | | **EBITDA** | **344** | **407** | **565** | **849** | **905** | **931** | | *growth, yoy* | (5.8%) | 18.5% | 38.9% | 50.2% | 6.6% | 2.9% | | *margin* | *14.3%* | *15.3%* | *18.4%* | *23.0%* | *23.9%* | *24.2%* | |  |  |  |  |  |  |  | | EBIT | 204 | 312 | 456 | 671 | 715 | 734 | | **Net income** | **108** | **206** | **470** | **440** | **473** | **489** | | Basic EPS | 0.6 | 1.1 | 2.4 | 2.2 | 2.3 | 2.4 | | ***Consensus EPS*** |  | ***1.1*** | ***1.5*** | ***1.9*** | ***2.2*** | ***2.5*** | | DPS | 0.3 | 0.4 | 0.6 | 0.9 | 1.0 | 2.2 | | ***Consensus DPS*** | ***0.3*** | ***0.4*** | ***0.6*** | ***0.6*** | ***0.8*** | ***0.8*** | |  |  |  |  |  |  |  | | Capex | (64) | (60) | (83) | (183) | (210) | (208) | | **FCF** | **197** | **209** | **286** | **376** | **423** | **479** | |  |  |  |  |  |  |  | | **Net debt & pensions** | **257** | **297** | **1,056** | **802** | **603** | **316** | | Net debt/EBITDA | 0.7x | 0.7x | 1.9x | 0.9x | 0.7x | 0.3x | |
| Source: Powered by dataCentral |

## Significant upcoming events

The full year results presentation (26th March) will be very important this time around. There are many key questions for management to answer:

* Confirm their outlook for Applications, and explain how they will improve performance
* Update on progress for mobile contract renewals
* Explain the long term strategy behind the Rocket Internet significant stake
* Provide more light on the reason for the relatively large capital increase seeing as leverage falls substantially by 2017: are more acquisitions in the pipeline?

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| Figure 213. UTDI SOTP |
| |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Division** | **Stake** | **Enterprise value** | **Valuation Method** | **UI equity** | **% of UI EV** | **Value/ share** | **EV/ Sales** | **EV/ EBITDA** | **EV/ OpFCF** | **P/E** | | Access | 100% | 3,762 | 9.0x 2015 EV/EBITDA | 3,762 | 48% | 18.4 | 1.7x | 9.0x | 9.5x | 13.6x | | Applications | 100% | 2,218 | 7.0x 2015 EV/EBITDA | 2,218 | 28% | 10.8 | 2.2x | 7.0x | 9.0x | 12.8x | | Versatel | 100% | 1,336 | 6.0x 2015 EV/EBITDA | 1,336 | 17% | 6.5 | 2.4x | 6.0x | 9.7x | 13.9x | | Versatel | 100% | (145) | Cost to achieve synergies | (145) | -2% | -0.7 | Not applicable | |  |  | | **Total Core** |  | **7,171** |  | **7,171** | **91%** | **35.1** | **1.9x** | **7.5x** | **9.2x** | **13.1x** | | Other Associates and Financial Investments | |  |  | 88.4 |  |  |  |  |  |  | | Rocket Internet | 8.2% |  | Citi Target Price | 627.8 | 8.0% | 3.1 |  |  |  |  | | **Total Associates** |  |  |  | **716** | **9%** | **3.5** |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  | | **Total EV** |  |  |  | **7,887** |  | **38.6** |  |  |  |  | | Total net debt |  |  | 1H15 Net Debt | (928) |  | (4.5) |  |  |  |  | | **Total** |  |  |  | **6,959** |  | **34.0** |  |  |  |  | | 2015 Dividend |  |  |  | (112) |  | (0.6) |  |  |  |  | | **Target Price ex-Dividend** |  |  |  | **6,847** |  | **33.5** |  |  |  |  | |
| Source: Citi Research |

Countries Section

Western Europe

Austria

### Fixed

* TKA’s retail fixed base was broadly flat in 3Q after losing -10k in 2Q14. Total market lines also grew by 4k attributable to cable partly offset by decline in LLU base. Fixed broadband market also accelerated with net adds at 21k in 3Q (14k in 2Q) with TKA adding 16k, cable net adds 8k, -3k for other DSL alt nets.

### Mobile

* Service revenue growth ex MTRs declined to -1.1% in 3Q14 from +1.3% in 2Q mainly attributable to T Mobile. TKA service revenue growth ex MTR turned positive in the quarter to +1.7% after positing negative growth in last three years. There was MTR impact of 5.7% in 3Q. Including MTR, service revenue growth was -6.8% in 3Q14.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 214. Telephony Net Adds |  | Figure 215. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 216. Broadband Subscriber Quarterly Net Adds |  | Figure 217. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 218. Revenue and GDP |  | Figure 219. Service Revenue Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 220. Post-Paid Net Adds |  | Figure 221. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 222. Service revenue growth (excl MTR cuts) |  | Figure 223. Minutes growth |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Austria Mobile Data

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| Figure 224. Austria Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Austria** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 319 | 317 | 312 | 302 | 297 | 291 | 291 | 281 | 273 | 271 | 271 | 258 | 249 | 258 | 267 | | T-Mobile (DT) | 218 | 215 | 220 | 210 | 209 | 199 | 201 | 193 | 174 | 175 | 204 | 173 | 168 | 172 | 179 | | **Total** | **586** | **582** | **590** | **569** | **565** | **548** | **554** | **536** | **501** | **499** | **529** | **482** | **465** | **477** | **494** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | (3.1%) | (4.2%) | (6.6%) | (8.1%) | (6.7%) | (8.4%) | (6.7%) | (6.8%) | (8.1%) | (6.9%) | (6.7%) | (8.0%) | (8.8%) | (4.8%) | (1.7%) | | T-Mobile (DT) | (7.2%) | (7.3%) | (6.8%) | (5.8%) | (4.1%) | (7.4%) | (8.6%) | (8.1%) | (16.7%) | (12.1%) | 1.5% | (10.4%) | (3.4%) | (1.7%) | (12.3%) | | **Total** | **(4.4%)** | **(5.0%)** | **(5.6%)** | **(6.0%)** | **(3.6%)** | **(5.7%)** | **(6.0%)** | **(5.8%)** | **(11.3%)** | **(9.0%)** | **(4.5%)** | **(10.1%)** | **(7.2%)** | **(4.4%)** | **(6.8%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 54.4% | 54.6% | 52.9% | 53.0% | 52.6% | 53.0% | 52.5% | 52.4% | 54.5% | 54.3% | 51.3% | 53.6% | 53.6% | 54.1% | 54.0% | | T-Mobile (DT) | 37.2% | 37.0% | 37.3% | 36.9% | 37.0% | 36.3% | 36.3% | 36.0% | 34.7% | 35.1% | 38.5% | 35.9% | 36.1% | 36.1% | 36.3% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 3,931 | 3,977 | 4,039 | 4,091 | 3,951 | 3,930 | 3,930 | 3,966 | 4,020 | 3,998 | 3,975 | 3,968 | 3,931 | 3,820 | 3,815 | | T-Mobile (DT) | 2,397 | 2,410 | 2,426 | 2,522 | 2,533 | 2,528 | 2,537 | 2,571 | 2,575 | 2,588 | 2,605 | 2,630 | 2,636 | 2,659 | 2,601 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 3,196 | 3,078 | 3,034 | 3,194 | 3,242 | 3,144 | 3,082 | 3,252 | 3,108 | 3,339 | 3,184 | 3,286 | 3,264 | 2,969 | 3,273 | | Deutsche Telekom | 2,580 | 2,591 | 2,496 | 2,626 | 2,646 | 2,637 | 2,468 | 2,564 | 2,557 | 2,559 | 2,435 | 2,550 | 2,471 | 2,479 | 2,430 | | **Total** | **6,501** | **6,418** | **6,297** | **6,656** | **6,772** | **6,700** | **6,486** | **6,859** | **6,681** | **7,413** | **7,555** | **7,881** | **7,766** | **7,427** | **7,800** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 0.2% | (2.2%) | (1.7%) | (1.0%) | 1.4% | 2.1% | 1.6% | 1.8% | (4.1%) | 6.2% | 3.3% | 1.1% | 5.0% | (11.1%) | 2.8% | | Deutsche Telekom | 6.7% | 4.1% | 3.1% | 0.3% | 2.6% | 1.8% | (1.1%) | (2.3%) | (3.4%) | (2.9%) | (1.3%) | (0.6%) | (3.3%) | (3.1%) | (0.2%) | | **Total** | **4.9%** | **2.6%** | **2.4%** | **1.6%** | **4.2%** | **4.4%** | **3.0%** | **3.0%** | **(1.4%)** | **10.6%** | **16.5%** | **14.9%** | **16.2%** | **0.2%** | **3.2%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 31.7% | 90.2% | 95.9% | 90.8% | 95.2% | 87.0% | 25.9% | 29.1% | 31.6% | 29.6% | 27.7% | 25.9% | 28.8% | 48.0% | 16.8% | | T-Mobile (DT) | 10.8% | 10.8% | 9.6% | 10.8% | 12.0% | 10.8% | 8.4% | 9.6% | 10.8% | 10.8% | 8.4% | 8.4% | 9.6% | 7.2% | 16.8% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T-Mobile (DT) | 60 | 68 | 69 | 56 | 60 | 53 | 65 | 56 | 55 | 40 | 62 | 35 | 44 | 60 | 67 | |
| Source: Citi Research and Company Reports |

## Austria Fixed Data

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| --- |
| Figure 225. Austria Fixed Line Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Austria** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,155 | 1,172 | 1,204 | 1,273 | 1,283 | 1,281 | 1,299 | 1,312 | 1,333 | 1,346 | 1,364 | 1,390 | 1,415 | 1,425 | 1,441 | | Incumbent wholesale | 45 | 44 | 43 | 43 | 42 | 42 | 42 | 42 | 41 | 41 | 40 | 38 | 37 | 37 | 37 | | ULL (total) | 278 | 276 | 272 | 272 | 271 | 270 | 269 | 268 | 261 | 257 | 253 | 250 | 247 | 245 | 242 | | Cable | 440 | 443 | 439 | 445 | 471 | 475 | 479 | 491 | 493 | 499 | 504 | 542 | 551 | 557 | 565 | | **Total** | **1,917** | **1,935** | **1,958** | **2,032** | **2,067** | **2,068** | **2,089** | **2,112** | **2,128** | **2,143** | **2,162** | **2,221** | **2,250** | **2,264** | **2,285** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 1,155 | 1,172 | 1,204 | 1,273 | 1,283 | 1,281 | 1,299 | 1,312 | 1,333 | 1,346 | 1,364 | 1,390 | 1,415 | 1,425 | 1,441 | | UPC | 440 | 443 | 439 | 445 | 471 | 475 | 479 | 491 | 493 | 499 | 504 | 542 | 551 | 557 | 565 | | Tele2 | 129 | 127 | 125 | 134 | 132 | 130 | 129 | 127 | 124 | 122 | 120 | 118 | 115 | 114 | 110 | | - other | 193 | 193 | 190 | 180 | 181 | 183 | 182 | 182 | 178 | 176 | 174 | 170 | 169 | 168 | 169 | | **Total** | **1,917** | **1,935** | **1,958** | **2,032** | **2,067** | **2,068** | **2,089** | **2,112** | **2,128** | **2,143** | **2,162** | **2,221** | **2,250** | **2,264** | **2,285** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TKA | 40 | 17 | 32 | 70 | 10 | (2) | 18 | 13 | 21 | 13 | 18 | 26 | 25 | 10 | 16 | | UPC | 1 | 3 | (4) | 6 | 26 | 4 | 4 | 12 | 2 | 6 | 6 | 38 | 8 | 7 | 8 | | Tele2 | (1) | (2) | (2) | 9 | (2) | (2) | (1) | (2) | (3) | (2) | (2) | (2) | (3) | (1) | (4) | | - other | (1) | 0 | (3) | (10) | 1 | 1 | (0) | (0) | (4) | (2) | (2) | (4) | (1) | (2) | 1 | | **Total** | **39** | **18** | **23** | **75** | **35** | **1** | **21** | **23** | **16** | **15** | **19** | **59** | **29** | **14** | **21** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 2,322 | 2,323 | 2,327 | 2,336 | 2,320 | 2,288 | 2,285 | 2,282 | 2,281 | 2,274 | 2,274 | 2,284 | 2,288 | 2,275 | 2,276 | | ULL (total) | 278 | 276 | 272 | 272 | 271 | 270 | 269 | 268 | 261 | 257 | 253 | 250 | 247 | 245 | 242 | | Cable | 333 | 340 | 342 | 349 | 362 | 369 | 374 | 382 | 386 | 392 | 399 | 406 | 412 | 418 | 423 | | **Total** | **2,933** | **2,940** | **2,940** | **2,957** | **2,953** | **2,927** | **2,928** | **2,932** | **2,928** | **2,923** | **2,926** | **2,940** | **2,947** | **2,937** | **2,941** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 7 | 1 | 3 | 10 | (16) | (32) | (3) | (3) | (1) | (7) | (1) | 10 | 4 | (13) | 0 | | ULL (total) | (1) | (1) | (4) | (1) | (1) | (1) | (1) | (2) | (7) | (3) | (4) | (3) | (3) | (2) | (3) | | Cable | 8 | 7 | 2 | 7 | 13 | 7 | 5 | 8 | 4 | 6 | 7 | 7 | 7 | 5 | 6 | | **Total** | **15** | **7** | **1** | **16** | **(4)** | **(26)** | **1** | **4** | **(4)** | **(4)** | **3** | **14** | **7** | **(9)** | **4** | |
| Source: Citi Research and Company Reports |

Belgium

### Fixed

* Fixed line trends further improved for Belgacom with retail line net losses decline to -24k from -32k in 3Q13 while total Market lines net adds at 2k (vs. 0k in 3Q13). Broadband net adds were also strong at 53k in 3Q14 vs. 45k in 3Q13 and 44k in 2Q14 mainly attributable to Cable which is still gaining market share however at a slower pace now. Belgacom continues to gain share in TV.

### Mobile

* Service revenue growth ex-MTRs further improved at -2.9% in 3Q14 vs. -5.8% in 2Q14 and -8.0% in 1Q14. Post-pay net adds remained strong at 135k, driven by 68k net adds for Belgacom, 48k for Telenet while Mobistar net adds turned positive to 1k after declining for last 6 quarters. Market minutes growth was strong 8.8% in 3Q14 post 7.7% in 2Q14.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 226. Telephony Net Adds |  | Figure 227. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 228. Broadband Subscriber Quarterly Net Adds |  | Figure 229. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 230. Revenue and GDP |  | Figure 231. Service Revenue Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 232. Post-Paid Net Adds |  | Figure 233. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 234. Service revenue growth (excl MTR cuts) |  | Figure 235. Minutes growth |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Belgium Mobile Data

|  |
| --- |
| Figure 236. Belgium Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Belgium** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 392 | 407 | 402 | 398 | 389 | 385 | 386 | 370 | 338 | 346 | 329 | 327 | 318 | 330 | 328 | | Mobistar | 316 | 326 | 324 | 322 | 304 | 312 | 308 | 316 | 281 | 275 | 263 | 249 | 240 | 246 | 244 | | KPN | 160 | 171 | 176 | 180 | 170 | 180 | 181 | 185 | 162 | 161 | 158 | 158 | 152 | 155 | 151 | | **Total** | **878** | **916** | **918** | **916** | **880** | **895** | **897** | **905** | **828** | **834** | **803** | **786** | **762** | **785** | **780** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | (5.5%) | (4.0%) | (3.1%) | (2.9%) | (0.8%) | (5.4%) | (4.0%) | (7.0%) | (13.1%) | (10.1%) | (14.8%) | (11.6%) | (5.9%) | (4.6%) | (0.3%) | | Mobistar | (5.8%) | (4.8%) | (0.6%) | (1.6%) | (3.6%) | (4.3%) | (5.0%) | (1.9%) | (7.6%) | (11.9%) | (14.6%) | (21.3%) | (14.5%) | (10.3%) | (7.3%) | | KPN | (5.3%) | (3.9%) | 3.5% | 7.8% | 6.3% | 5.3% | 2.8% | 2.8% | (4.7%) | (10.6%) | (12.7%) | (14.6%) | (6.2%) | (3.7%) | (4.4%) | | **Total** | **(5.2%)** | **(3.8%)** | **(0.2%)** | **0.2%** | **0.2%** | **(2.3%)** | **(2.3%)** | **(1.2%)** | **(6.0%)** | **(6.9%)** | **(10.4%)** | **(13.1%)** | **(8.0%)** | **(5.8%)** | **(2.9%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 44.6% | 44.4% | 43.8% | 43.5% | 44.2% | 43.0% | 43.1% | 40.9% | 40.8% | 41.5% | 41.0% | 41.6% | 41.8% | 42.0% | 42.0% | | Mobistar | 35.9% | 35.6% | 35.3% | 35.2% | 34.6% | 34.8% | 34.4% | 34.9% | 34.0% | 32.9% | 32.7% | 31.6% | 31.6% | 31.4% | 31.2% | | KPN | 18.2% | 18.7% | 19.2% | 19.7% | 19.3% | 20.1% | 20.2% | 20.4% | 19.6% | 19.3% | 19.7% | 20.1% | 20.0% | 19.7% | 19.4% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 2,925 | 2,979 | 3,035 | 3,090 | 3,095 | 3,180 | 3,218 | 3,198 | 3,254 | 3,380 | 3,456 | 3,541 | 3,663 | 3,756 | 3,824 | | Mobistar | 2,245 | 2,265 | 2,292 | 2,330 | 2,350 | 2,375 | 2,389 | 2,339 | 2,313 | 2,301 | 2,257 | 2,222 | 2,180 | 2,160 | 2,161 | | KPN | 757 | 777 | 788 | 809 | 818 | 822 | 819 | 826 | 818 | 871 | 917 | 953 | 981 | 997 | 1,015 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 2,397 | 2,510 | 2,416 | 2,528 | 2,543 | 2,596 | 2,422 | 2,519 | 2,499 | 2,622 | 2,526 | 2,675 | 2,751 | 2,910 | 2,848 | | KPN | 1,506 | 1,518 | 1,472 | 1,587 | 1,614 | 1,641 | 1,437 | 1,605 | 1,549 | 1,625 | 1,515 | 1,715 | 1,725 | 1,666 | 1,547 | | **Total** | **5,782** | **6,008** | **5,789** | **6,103** | **6,155** | **6,276** | **5,790** | **6,201** | **6,171** | **6,495** | **6,199** | **6,659** | **6,792** | **7,049** | **6,853** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 1.1% | 2.5% | 2.3% | 2.4% | 6.1% | 3.4% | 0.3% | (0.3%) | (1.7%) | 1.0% | 4.3% | 6.2% | 10.1% | 11.0% | 12.8% | | KPN | 7.3% | 1.9% | 12.1% | 8.4% | 7.1% | 8.1% | (2.4%) | 1.2% | (4.0%) | (1.0%) | 5.4% | 6.9% | 11.3% | 2.5% | 2.1% | | **Total** | **4.1%** | **3.5%** | **5.4%** | **4.4%** | **6.4%** | **4.5%** | **0.0%** | **1.6%** | **0.3%** | **3.5%** | **7.1%** | **7.4%** | **10.1%** | **8.5%** | **10.5%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 20.0% | 16.0% | 17.0% | 19.0% | 22.0% | 26.0% | 29.0% | 43.0% | 36.0% | 28.0% | 23.0% | 30.0% | 27.0% | 27.0% | 26.0% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Mobistar | 125 | 146 | 130 | 129 | 113 | 137 | 120 | 125 | 99 | 82 | 89 | 47 | 66 | 74 | 77 | | KPN | 57 | 64 | 73 | 79 | 60 | 74 | 74 | 64 | 46 | 49 | 47 | 50 | 41 | 36 | 38 | |
| Source: Citi Research and Company Reports |

## Belgium Fixed Data

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| --- |
| Figure 237. Belgium Fixed Market information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Belgium** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,567 | 1,572 | 1,572 | 1,590 | 1,605 | 1,614 | 1,625 | 1,636 | 1,647 | 1,652 | 1,660 | 1,676 | 1,692 | 1,704 | 1,717 | | Wholesale and ULL | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | | Cable | 1,484 | 1,519 | 1,557 | 1,601 | 1,641 | 1,674 | 1,718 | 1,763 | 1,804 | 1,840 | 1,877 | 1,920 | 1,956 | 1,988 | 2,028 | | **Total** | **3,391** | **3,431** | **3,469** | **3,531** | **3,586** | **3,628** | **3,683** | **3,739** | **3,791** | **3,832** | **3,877** | **3,936** | **3,988** | **4,032** | **4,085** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 1,567 | 1,572 | 1,572 | 1,590 | 1,605 | 1,614 | 1,625 | 1,636 | 1,647 | 1,652 | 1,660 | 1,676 | 1,692 | 1,704 | 1,717 | | Telenet | 1,249 | 1,264 | 1,282 | 1,306 | 1,326 | 1,339 | 1,363 | 1,388 | 1,409 | 1,425 | 1,442 | 1,465 | 1,481 | 1,493 | 1,513 | | Other DSL | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | 340 | | Voo | 235 | 255 | 275 | 295 | 315 | 335 | 355 | 375 | 395 | 415 | 435 | 455 | 475 | 495 | 515 | | **Total** | **3,391** | **3,431** | **3,469** | **3,531** | **3,586** | **3,628** | **3,683** | **3,739** | **3,791** | **3,832** | **3,877** | **3,936** | **3,988** | **4,032** | **4,085** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 9 | 5 | 0 | 18 | 15 | 9 | 11 | 11 | 11 | 5 | 8 | 16 | 16 | 12 | 13 | | Telenet | 23 | 15 | 18 | 24 | 20 | 13 | 24 | 25 | 22 | 16 | 17 | 23 | 16 | 12 | 20 | | Voo | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | | **Total** | **52** | **40** | **38** | **62** | **55** | **42** | **55** | **56** | **53** | **41** | **45** | **59** | **52** | **44** | **53** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 3,220 | 3,180 | 3,138 | 3,106 | 3,078 | 3,041 | 3,014 | 2,982 | 2,937 | 2,900 | 2,868 | 2,837 | 2,805 | 2,779 | 2,755 | | Cable | 831 | 847 | 864 | 880 | 902 | 920 | 949 | 969 | 988 | 997 | 1,029 | 1,065 | 1,088 | 1,107 | 1,134 | | **Total** | **4,051** | **4,027** | **4,002** | **3,986** | **3,980** | **3,961** | **3,963** | **3,951** | **3,925** | **3,898** | **3,897** | **3,902** | **3,894** | **3,886** | **3,888** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (52) | (40) | (42) | (32) | (28) | (37) | (27) | (32) | (45) | (37) | (32) | (31) | (32) | (26) | (24) | | Cable | 16 | 17 | 17 | 16 | 22 | 18 | 29 | 20 | 19 | 10 | 32 | 36 | 23 | 19 | 26 | | **Total** | **(36)** | **(23)** | **(25)** | **(16)** | **(6)** | **(19)** | **2** | **(12)** | **(26)** | **(27)** | **(0)** | **5** | **(9)** | **(7)** | **2** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 879 | 925 | 963 | 1,021 | 1,057 | 1,093 | 1,125 | 1,156 | 1,170 | 1,184 | 1,198 | 1,218 | 1,225 | 1,244 | 1,264 | | Telenet | 2,254 | 2,234 | 2,214 | 2,199 | 2,181 | 2,152 | 2,134 | 2,123 | 2,106 | 2,098 | 2,093 | 2,093 | 2,082 | 2,077 | 2,074 | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Belgacom | 40 | 46 | 38 | 58 | 36 | 36 | 32 | 31 | 14 | 14 | 14 | 20 | 7 | 19 | 20 | | Telenet | (21) | (20) | (20) | (16) | (18) | (29) | (18) | (11) | (17) | (9) | (4) | (1) | (10) | (6) | (3) | |
| Source: Citi Research and Company Reports |

Denmark

### Fixed

* Fixed line trends slightly deteriorated in 3Q with retail fixed lines declined -9.8% yoy vs -9.6% in 2Q. The fixed broadband market added 1k subscribers.

### Mobile

* Service revenue excluding the impact of MTR cuts deteriorated at -5.5% in 3Q14, vs -4.8% in 2Q14. Revenue pressure remains as customers migrate to discount brands and B2B contracts are renegotiated downwards to match the reduction in consumer prices.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 238. Telephony Net Adds |  | Figure 239. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 240. Broadband Subscriber Net Adds |  | Figure 241. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 242. Revenue and GDP |  | Figure 243. Service Revenue Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 244. Post-Paid Net Adds |  | Figure 245. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 246. Service revenue growth (excl MTR cuts) |  | Figure 247. Minutes growth |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Denmark Mobile Data

|  |
| --- |
| Figure 248. Denmark Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Denmark** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC | 1,817 | 1,780 | 1,751 | 1,680 | 1,728 | 1,679 | 1,649 | 1,597 | 1,418 | 1,439 | 1,469 | 1,398 | 1,333 | 1,325 | 1,321 | | Telia | 939 | 898 | 858 | 803 | 790 | 720 | 723 | 706 | 657 | 652 | 682 | 652 | 628 | 632 | 646 | | Telenor | 1,082 | 1,007 | 1,014 | 1,014 | 913 | 879 | 897 | 867 | 767 | 756 | 756 | 723 | 705 | 701 | 716 | | 3 (Hutch) | 571 | 565 | 579 | 600 | 606 | 602 | 580 | 547 | 522 | 511 | 509 | 518 | 597 | 528 | 531 | | **Total** | **3,839** | **3,686** | **3,623** | **3,497** | **3,431** | **3,278** | **3,269** | **3,170** | **2,842** | **2,847** | **2,907** | **2,773** | **2,666** | **2,657** | **2,683** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC | (5.1%) | (4.4%) | (7.0%) | (9.6%) | (4.9%) | (5.7%) | (5.8%) | (4.9%) | (17.9%) | (14.3%) | (10.9%) | (12.5%) | (6.0%) | (7.9%) | (10.1%) | | Telia | (8.5%) | (12.1%) | (14.7%) | (18.5%) | (15.9%) | (19.8%) | (15.8%) | (12.1%) | (16.8%) | (9.5%) | (5.6%) | (7.7%) | (4.5%) | (3.1%) | (5.3%) | | Telenor | (6.4%) | (13.7%) | (11.5%) | (14.0%) | (15.7%) | (12.7%) | (11.5%) | (14.5%) | (16.0%) | (13.9%) | (15.8%) | (16.5%) | (8.0%) | (7.4%) | (5.2%) | | 3 (Hutch) | 22.3% | 21.2% | 15.5% | 12.0% | 6.2% | 6.6% | 0.2% | (8.8%) | (13.8%) | (15.1%) | (12.2%) | (5.4%) | 14.4% | 3.2% | 4.4% | | **Total** | **(6.3%)** | **(9.0%)** | **(10.2%)** | **(13.1%)** | **(10.6%)** | **(11.1%)** | **(9.8%)** | **(9.4%)** | **(17.2%)** | **(13.2%)** | **(11.1%)** | **(12.5%)** | **(6.2%)** | **(6.7%)** | **(7.7%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC | 47.3% | 48.3% | 48.3% | 48.0% | 50.4% | 51.2% | 50.4% | 50.4% | 49.9% | 50.5% | 50.5% | 50.4% | 50.0% | 49.9% | 49.2% | | Telia | 24.5% | 24.4% | 23.7% | 23.0% | 23.0% | 22.0% | 22.1% | 22.3% | 23.1% | 22.9% | 23.5% | 23.5% | 23.6% | 23.8% | 24.1% | | Telenor | 28.2% | 27.3% | 28.0% | 29.0% | 26.6% | 26.8% | 27.5% | 27.3% | 27.0% | 26.6% | 26.0% | 26.1% | 26.4% | 26.4% | 26.7% | | 3 (Hutch) | 14.9% | 15.3% | 16.0% | 17.2% | 17.7% | 18.4% | 17.7% | 17.3% | 18.4% | 18.0% | 17.5% | 18.7% | 22.4% | 19.9% | 19.8% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC | 2,571 | 2,592 | 2,604 | 2,608 | 2,617 | 2,618 | 2,590 | 2,559 | 2,549 | 2,547 | 2,549 | 2,533 | 2,493 | 2,631 | 2,624 | | Telia | 1,242 | 1,237 | 1,233 | 1,259 | 1,273 | 1,297 | 1,305 | 1,322 | 1,333 | 1,348 | 1,363 | 1,386 | 1,393 | 1,416 | 1,428 | | Telenor | 1,233 | 1,222 | 1,231 | 1,245 | 1,230 | 1,239 | 1,240 | 1,259 | 1,214 | 1,194 | 1,198 | 1,209 | 1,232 | 1,247 | 1,281 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC | 1,122 | 1,136 | 1,158 | 1,191 | 1,189 | 1,189 | 1,122 | 1,183 | 1,138 | 1,206 | 1,116 | 1,166 | 1,152 | 1,172 | 1,197 | | Telia | 1,036 | 1,040 | 995 | 1,026 | 1,048 | 1,065 | 1,022 | 1,084 | 1,052 | 1,136 | 1,084 | 1,159 | 1,160 | 1,211 | 1,180 | | Telenor | 1,139 | 1,129 | 1,127 | 1,189 | 1,228 | 1,244 | 1,211 | 1,289 | 1,301 | 1,359 | 1,249 | 1,332 | 1,367 | 1,406 | 1,363 | | **Total** | **3,297** | **3,305** | **3,280** | **3,406** | **3,464** | **3,498** | **3,355** | **3,556** | **3,491** | **3,701** | **3,449** | **3,657** | **3,679** | **3,789** | **3,740** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC | 1.5% | (0.2%) | 6.8% | 2.1% | 5.9% | 4.6% | (3.1%) | (0.7%) | (4.2%) | 1.5% | (0.5%) | (1.5%) | 1.2% | (2.9%) | 7.3% | | Telia | 3.6% | (0.4%) | (2.8%) | (4.1%) | 1.1% | 2.5% | 2.7% | 5.7% | 0.4% | 6.6% | 6.0% | 7.0% | 10.3% | 6.6% | 8.9% | | Telenor | (1.8%) | (4.4%) | 0.2% | 1.0% | 7.8% | 10.2% | 7.4% | 8.4% | 5.9% | 9.3% | 3.2% | 3.4% | 5.1% | 3.5% | 9.1% | | **Total** | **1.0%** | **(1.7%)** | **1.5%** | **(0.2%)** | **5.1%** | **5.8%** | **2.3%** | **4.4%** | **0.8%** | **5.8%** | **2.8%** | **2.9%** | **5.4%** | **2.4%** | **8.4%** | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 169 | 180 | 169 | 68 | 116 | 83 | 121 | 151 | 115 | 133 | 157 | 145 | 118 |  |  | | Telenor | 408 | 480 | 459 | 354 | 290 | 278 | 309 | 276 | 255 | 217 | 284 | 214 | 170 | 119 |  | | 3 (Hutch) | 167 | 123 | 153 | 125 | 139 | 124 | 167 | 179 | 140 | 139 | 170 | 181 | 152 |  |  | |
| Source: Citi Research and Company Reports |

## Denmark Fixed Data

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| --- |
| Figure 249. Denmark Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Denmark** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,291 | 1,281 | 1,285 | 1,289 | 1,299 | 1,314 | 1,323 | 1,326 | 1,332 | 1,336 | 1,333 | 1,330 | 1,327 | 1,324 | 1,321 | | Incumbent wholesale | 147 | 150 | 150 | 148 | 144 | 143 | 140 | 140 | 137 | 133 | 134 | 134 | 137 | 140 | 143 | | ULL (total) | 215 | 211 | 206 | 200 | 188 | 182 | 178 | 174 | 171 | 170 | 167 | 165 | 163 | 161 | 162 | | Cable | 193 | 193 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | | **Total** | **1,972** | **1,961** | **1,959** | **1,955** | **1,949** | **1,957** | **1,959** | **1,958** | **1,958** | **1,957** | **1,952** | **1,947** | **1,945** | **1,943** | **1,944** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC (DSL+cable) | 1,291 | 1,281 | 1,285 | 1,289 | 1,299 | 1,314 | 1,323 | 1,326 | 1,332 | 1,336 | 1,333 | 1,330 | 1,327 | 1,324 | 1,321 | | Telenor | 236 | 231 | 225 | 218 | 204 | 197 | 191 | 184 | 180 | 175 | 170 | 166 | 164 | 161 | 161 | | Telia | 75 | 80 | 81 | 82 | 82 | 80 | 85 | 87 | 91 | 91 | 97 | 99 | 102 | 108 | 112 | | Stofa (cable) | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 | | Telenor (cable) | 21 | 21 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | | - other | 51 | 50 | 50 | 48 | 46 | 48 | 42 | 43 | 37 | 37 | 34 | 34 | 34 | 32 | 32 | | **Total** | **1,972** | **1,961** | **1,959** | **1,955** | **1,949** | **1,957** | **1,959** | **1,958** | **1,958** | **1,957** | **1,952** | **1,947** | **1,945** | **1,943** | **1,944** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TDC (DSL+cable) | (4) | (10) | 4 | 4 | 10 | 15 | 9 | 3 | 6 | 4 | (3) | (3) | (3) | (3) | (3) | | Telenor | (4) | (5) | (6) | (7) | (14) | (7) | (6) | (7) | (4) | (5) | (5) | (4) | (2) | (3) | 0 | | Telia | 6 | 5 | 1 | 1 | 0 | (2) | 5 | 3 | 3 | 0 | 6 | 2 | 4 | 6 | 4 | | **Total** | **(10)** | **(11)** | **(2)** | **(4)** | **(6)** | **8** | **2** | **(1)** | **0** | **(1)** | **(5)** | **(5)** | **(2)** | **(2)** | **1** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Retail Narrowband Lines | 1,584 | 1,554 | 1,526 | 1,497 | 1,463 | 1,432 | 1,402 | 1,367 | 1,342 | 1,298 | 1,267 | 1,236 | 1,205 | 1,174 | 1,143 | | WLR | 207 | 200 | 195 | 187 | 182 | 182 | 176 | 169 | 164 | 160 | 156 | 152 | 148 | 144 | 140 | | LLU (full) | 181 | 179 | 176 | 172 | 164 | 159 | 156 | 153 | 151 | 151 | 149 | 148 | 147 | 146 | 148 | | **Total** | **1,972** | **1,933** | **1,897** | **1,856** | **1,809** | **1,773** | **1,734** | **1,689** | **1,657** | **1,609** | **1,572** | **1,536** | **1,500** | **1,464** | **1,431** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Retail Narrowband Lines | (41) | (30) | (28) | (29) | (34) | (31) | (30) | (35) | (25) | (44) | (31) | (31) | (31) | (31) | (31) | | WLR | (4) | (7) | (5) | (8) | (5) | 0 | (6) | (7) | (5) | (4) | (4) | (4) | (4) | (4) | (4) | | LLU (partial+full) | 2 | (2) | (3) | (4) | (8) | (5) | (3) | (3) | (2) | 0 | (2) | (1) | (1) | (1) | 2 | | **Total** | **(43)** | **(39)** | **(36)** | **(41)** | **(47)** | **(36)** | **(39)** | **(45)** | **(32)** | **(48)** | **(37)** | **(36)** | **(36)** | **(36)** | **(33)** | |
| Source: Citi Research and Company Reports |

Finland

### Fixed

* Fixed line loss remained stable in 3Q14 at -15k vs -18k in 2Q14. The fixed broadband market net adds remained strong at 35k vs 41k in 2Q14.

### Mobile

* Service revenue (excluding MTR cuts) growth declined to -0.8% from -0.5% 2Q14 mainly attributable to -2.6% decline at TeliaSonera.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 250. Telephony Net Adds |  | Figure 251. Line Loss, Incumbent Revenue Growth (Elisa, Telia, DNA) and GDP |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 252. Broadband Subscriber Net Adds |  | Figure 253. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 254. Revenue and GDP |  | Figure 255. Service Revenue Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 256. Post-Paid Net Adds |  | Figure 257. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 258. Service revenue growth (excl MTR cuts) |  | Figure 259. Minutes growth |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## Finland Mobile Data

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| --- |
| Figure 260. Finland Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Finland** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | DNA | 101 | 104 | 108 | 107 | 106 | 108 | 107 | 108 | 101 | 104 | 103 | 102 | 102 | 104 | 104 | | Telia | 199 | 205 | 202 | 198 | 196 | 189 | 182 | 177 | 166 | 171 | 168 | 169 | 167 | 166 | 163 | | Elisa | 199 | 202 | 204 | 204 | 200 | 203 | 199 | 194 | 180 | 190 | 189 | 189 | 188 | 193 | 189 | | **Total** | **499** | **511** | **514** | **509** | **502** | **501** | **488** | **479** | **447** | **465** | **460** | **460** | **456** | **463** | **457** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | DNA | 7.0% | 1.5% | 7.5% | 4.7% | 4.6% | 3.9% | (0.9%) | 0.8% | (4.5%) | (3.9%) | (3.6%) | (5.1%) | 0.8% | (0.2%) | 0.5% | | Telia | (1.8%) | (0.9%) | (0.4%) | (3.1%) | (1.4%) | (7.9%) | (9.8%) | (10.7%) | (15.3%) | (9.7%) | (7.8%) | (4.2%) | 0.5% | (2.6%) | (2.6%) | | Elisa | (0.1%) | (3.7%) | (0.3%) | (0.6%) | 0.6% | 0.6% | (2.2%) | (4.8%) | (10.3%) | (6.5%) | (5.0%) | (2.8%) | 4.4% | 1.4% | 0.0% | | **Total** | **0.6%** | **(1.5%)** | **1.2%** | **(0.5%)** | **0.6%** | **(2.1%)** | **(4.9%)** | **(5.9%)** | **(11.0%)** | **(7.1%)** | **(5.7%)** | **(3.8%)** | **2.1%** | **(0.5%)** | **(0.8%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | DNA | 20.3% | 20.4% | 21.1% | 21.0% | 21.1% | 21.7% | 22.0% | 22.5% | 22.6% | 22.4% | 22.5% | 22.2% | 22.3% | 22.5% | 22.8% | | Telia | 39.8% | 40.1% | 39.3% | 38.9% | 39.0% | 37.7% | 37.3% | 36.9% | 37.1% | 36.7% | 36.4% | 36.8% | 36.5% | 35.9% | 35.8% | | Elisa | 39.9% | 39.5% | 39.6% | 40.1% | 39.9% | 40.6% | 40.8% | 40.6% | 40.3% | 40.9% | 41.1% | 41.0% | 41.1% | 41.6% | 41.5% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 2,898 | 2,930 | 2,901 | 2,919 | 2,897 | 2,899 | 2,920 | 2,948 | 2,975 | 3,027 | 3,065 | 3,104 | 3,127 | 3,150 | 3,162 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 2,445 | 2,502 | 2,532 | 2,473 | 2,576 | 2,569 | 2,562 | 2,614 | 2,566 | 2,677 | 2,714 | 2,720 | 2,722 | 2,863 | 2,824 | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 2.0% | 1.3% | 3.8% | (0.1%) | 5.3% | 2.7% | 1.2% | 5.7% | (0.4%) | 4.2% | 5.9% | 4.1% | 6.1% | 6.9% | 4.1% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 79 | 81 | 82 | 75 | 77 | 72 | 69 | 61 | 68 | 89 | 75 | 73 | 74 |  |  | | Elisa |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Source: Citi Research and Company Reports |

## Finland Fixed Data

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| --- |
| Figure 261. Finland Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Finland** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Elisa | 478 | 475 | 482 | 486 | 489 | 491 | 498 | 505 | 509 | 567 | 566 | 566 | 564 | 564 | 557 | | Telia | 470 | 470 | 484 | 491 | 494 | 493 | 496 | 501 | 511 | 518 | 520 | 532 | 530 | 550 | 553 | | DNA | 297 | 292 | 294 | 299 | 298 | 307 | 311 | 311 | 307 | 309 | 313 | 322 | 339 | 360 | 398 | | Finnet | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | 178 | | - other | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | | **Total** | **1,448** | **1,440** | **1,464** | **1,480** | **1,484** | **1,495** | **1,509** | **1,521** | **1,530** | **1,598** | **1,602** | **1,623** | **1,636** | **1,677** | **1,712** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Elisa | 10 | (3) | 8 | 4 | 2 | 3 | 7 | 7 | 4 | (2) | (1) | 0 | (2) | (0) | (6) | | Telia | (6) | 0 | 14 | 7 | 3 | (1) | 3 | 5 | 10 | 7 | 2 | 12 | (2) | 20 | 3 | | DNA | 6 | (5) | 2 | 5 | (1) | 9 | 4 | 0 | (4) | 2 | 4 | 9 | 17 | 21 | 38 | | **Total** | **10** | **(8)** | **24** | **16** | **4** | **11** | **14** | **12** | **10** | **7** | **5** | **21** | **13** | **41** | **35** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Elisa | 335 | 324 | 308 | 298 | 285 | 277 | 269 | 260 | 247 | 238 | 230 | 221 | 209 | 200 | 191 | | Telia | 270 | 262 | 249 | 239 | 230 | 222 | 212 | 204 | 196 | 190 | 182 | 177 | 168 | 163 | 160 | | DNA | 152 | 147 | 142 | 138 | 134 | 130 | 126 | 120 | 116 | 112 | 107 | 103 | 97 | 93 | 89 | | Finnet | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | | - other | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | 113 | | **Total** | **1,155** | **1,131** | **1,097** | **1,073** | **1,047** | **1,027** | **1,004** | **982** | **957** | **938** | **917** | **899** | **872** | **854** | **838** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Elisa | (12) | (11) | (16) | (10) | (13) | (9) | (8) | (8) | (14) | (9) | (8) | (9) | (12) | (9) | (8) | | Telia | (7) | (8) | (13) | (10) | (9) | (8) | (10) | (8) | (8) | (6) | (8) | (5) | (9) | (5) | (3) | | DNA | (19) | (5) | (5) | (4) | (4) | (4) | (4) | (6) | (4) | (4) | (5) | (4) | (6) | (4) | (4) | | **Total** | **(38)** | **(24)** | **(34)** | **(24)** | **(26)** | **(21)** | **(22)** | **(22)** | **(26)** | **(19)** | **(21)** | **(18)** | **(27)** | **(18)** | **(15)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Elisa (cable TV) | 252 | 252 | 252 | 253 | 252 | 254 | 255 | 259 | 265 | 307 | 309 | 313 | 314 | 317 | 320 | | Telia (Cable TV) | 238 | 328 | 339 | 355 | 368 | 376 | 392 | 403 | 410 | 421 | 429 | 436 | 441 | 475 | 477 | | DNA (Cable TV) | 602 | 597 | 599 | 602 | 592 | 597 | 601 | 596 | 594 | 590 | 592 | 591 | 590 | 590 | 591 | | Finnet Group (cable tv) (est.) | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | 217 | | **Total** | **1,309** | **1,394** | **1,407** | **1,427** | **1,429** | **1,444** | **1,465** | **1,475** | **1,486** | **1,535** | **1,547** | **1,557** | **1,562** | **1,599** | **1,605** | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Elisa (cable TV) | 1 | 0 | 1 | 1 | (1) | 2 | 2 | 4 | 6 | 3 | 2 | 4 | 2 | 3 | 3 | | Telia (Cable TV) | 20 | 90 | 11 | 16 | 13 | 8 | 16 | 11 | 7 | 11 | 8 | 7 | 5 | 34 | 2 | | DNA (Cable TV) | 4 | (5) | 2 | 3 | (10) | 5 | 4 | (5) | (2) | (4) | 2 | (1) | (1) | 0 | 1 | |
| Source: Citi Research and Company Reports |

France

### Fixed

* FT's retail line losses improved at -119k in 3Q vs. -240k in 2Q14. Fixed revenue growth also improved at-1.2% in 3Q vs. -2.2% in Q2 and -2.7% in Q1. Free maintained its number two broadband position with fixed broadband net adds improving to 70k in 3Q vs 24k in 2Q14 and 62k in 3Q13. FT broadband net additions were 84k driven partly by FTTH.

### Mobile

* Service revenue growth excluding MTRs improved to -5.9% in 3Q14 from -7.7% in 2Q14 and -8.8% in 1Q14. Free continues to gain market share with 480k net additions in 3Q14. Total minutes growth was strong at 2.2% in Q3

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 262. Telephony Net Adds |  | Figure 263. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 264. Broadband Subscriber Net Adds |  | Figure 265. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 266. Revenue and GDP |  | Figure 267. Service Revenue Market Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 268. Post-Paid Net Adds |  | Figure 269. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |
| Figure 270. Service revenue growth (excl MTR cuts) |  | Figure 271. Minutes growth |
|  |  |  |
| Source: Company Reports and Citi Research Estimates |  | Source: Company Reports and Citi Research Estimates |

## France Mobile Data

|  |
| --- |
| Figure 272. France Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **France** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 2,430 | 2,517 | 2,449 | 2,432 | 2,347 | 2,410 | 2,295 | 2,254 | 2,157 | 2,132 | 2,079 | 1,980 | 1,948 | 1,930 | 1,924 | | 3rd Operator | 1,175 | 1,212 | 1,148 | 1,133 | 1,088 | 1,071 | 963 | 926 | 866 | 847 | 849 | 800 | 747 | 752 | 752 | | SFR | 2,004 | 2,004 | 1,961 | 1,916 | 1,863 | 1,800 | 1,699 | 1,644 | 1,514 | 1,454 | 1,440 | 1,393 | 1,350 | 1,323 | 1,332 | | Free |  |  |  |  | 86 | 178 | 215 | 240 | 257 | 279 | 292 | 294 | 322 | 342 | 379 | | **Total** | **5,609** | **5,733** | **5,558** | **5,481** | **5,384** | **5,459** | **5,172** | **5,063** | **4,794** | **4,712** | **4,660** | **4,467** | **4,367** | **4,347** | **4,386** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | (1.5%) | 0.1% | (2.7%) | (3.4%) | (3.4%) | (4.2%) | (6.3%) | (7.3%) | (8.1%) | (11.5%) | (9.4%) | (12.1%) | (9.7%) | (9.5%) | (7.5%) | | 3rd Operator | (1.7%) | (0.2%) | (3.7%) | (6.7%) | (7.4%) | (11.6%) | (16.1%) | (18.3%) | (20.4%) | (20.9%) | (11.8%) | (13.6%) | (13.7%) | (11.2%) | (11.4%) | | SFR | (3.6%) | (6.5%) | (6.6%) | (8.7%) | (7.0%) | (10.2%) | (13.4%) | (14.2%) | (18.7%) | (19.2%) | (15.2%) | (15.3%) | (10.8%) | (9.0%) | (7.5%) | | Free |  |  |  |  |  |  |  |  |  | 56.3% | 35.6% | 22.4% | 25.5% | 22.8% | 29.6% | | **Total** | **(2.3%)** | **(2.4%)** | **(4.3%)** | **(6.0%)** | **(4.0%)** | **(4.8%)** | **(7.0%)** | **(7.6%)** | **(11.0%)** | **(13.7%)** | **(9.9%)** | **(11.8%)** | **(8.9%)** | **(7.7%)** | **(5.9%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 43.3% | 43.9% | 44.1% | 44.4% | 43.6% | 44.2% | 44.4% | 44.5% | 45.0% | 45.3% | 44.6% | 44.3% | 44.6% | 44.4% | 43.9% | | 3rd Operator | 20.9% | 21.1% | 20.7% | 20.7% | 20.2% | 19.6% | 18.6% | 18.3% | 18.1% | 18.0% | 18.2% | 17.9% | 17.1% | 17.3% | 17.1% | | SFR | 35.7% | 35.0% | 35.3% | 35.0% | 34.6% | 33.0% | 32.8% | 32.5% | 31.6% | 30.9% | 30.9% | 31.2% | 30.9% | 30.4% | 30.4% | | Free | 0.0% | 0.0% | 0.0% | 0.0% | 1.6% | 3.3% | 4.2% | 4.7% | 5.4% | 5.9% | 6.3% | 6.6% | 7.4% | 7.9% | 8.6% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 18,898 | 19,025 | 19,254 | 19,453 | 19,066 | 19,152 | 19,472 | 19,704 | 19,789 | 20,033 | 20,447 | 20,783 | 21,064 | 21,254 | 21,579 | | 3rd Operator | 8,852 | 8,950 | 9,018 | 9,111 | 8,904 | 8,955 | 9,143 | 9,428 | 9,618 | 9,802 | 9,760 | 9,910 | 9,940 | 9,984 | 10,032 | | SFR | 15,916 | 16,315 | 16,207 | 16,566 | 16,292 | 16,414 | 16,454 | 16,563 | 16,820 | 17,372 | 17,732 | 18,011 | 18,020 | 18,120 | 18,220 | | Free |  |  |  |  | 2,610 | 3,600 | 4,405 | 5,205 | 6,075 | 6,795 | 7,435 | 8,040 | 8,635 | 9,095 | 9,575 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 15,516 | 15,517 | 15,750 | 16,087 | 16,150 | 16,420 | 17,317 | 18,248 | 18,495 | 18,643 | 18,718 | 18,995 | 17,620 | 18,052 | 18,525 | | 3rd Operator | 11,962 | 12,051 | 11,964 | 11,925 | 11,737 | 11,630 | 11,851 | 12,634 | 13,344 | 14,008 | 14,402 | 14,310 | 15,056 | 15,340 | 15,329 | | SFR | 16,623 | 16,587 | 16,640 | 16,787 | 16,669 | 16,710 | 17,189 | 17,888 | 18,388 | 19,229 | 19,955 | 20,174 | 20,358 | 20,865 | 20,943 | | Free |  |  |  |  | 708 | 1,738 | 2,356 | 2,932 | 3,476 | 4,033 | 4,483 | 4,926 | 4,907 | 5,344 | 5,753 | | **Total** | **44,101** | **44,155** | **44,353** | **44,799** | **45,264** | **46,498** | **48,713** | **51,702** | **53,703** | **55,913** | **57,557** | **58,405** | **57,943** | **59,600** | **60,550** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 2.8% | 4.7% | 8.0% | 7.2% | 4.1% | 5.8% | 10.0% | 13.4% | 14.5% | 13.5% | 8.1% | 4.1% | (4.7%) | (3.2%) | (1.0%) | | Bouygues | 33.9% | 25.2% | 12.8% | 2.7% | (1.9%) | (3.5%) | (0.9%) | 6.0% | 13.7% | 20.4% | 21.5% | 13.3% | 12.8% | 9.5% | 6.4% | | SFR | 19.6% | 14.8% | 8.9% | 3.0% | 0.3% | 0.7% | 3.3% | 6.6% | 10.3% | 15.1% | 16.1% | 12.8% | 10.7% | 8.5% | 4.9% | | **Total** | **16.3%** | **13.5%** | **9.6%** | **4.4%** | **2.6%** | **5.3%** | **9.8%** | **15.4%** | **18.6%** | **20.2%** | **18.2%** | **13.0%** | **7.9%** | **6.6%** | **5.2%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 15.8% | 16.1% | 16.4% | 17.1% | 19.0% | 20.0% | 20.4% | 20.9% | 19.2% | 18.6% | 18.0% | 17.1% | 16.3% | 15.5% | 15.2% | | **Data Revenue (excl messaging) % Service Revenue** | | | | | | | | | | | | | | | | | Orange (FT) | 18.5% | 18.3% | 20.4% | 20.4% | 21.3% | 21.4% | 23.3% | 25.4% | 25.4% | 25.4% | 25.4% | 25.4% | 25.4% | 25.4% | 25.4% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 954 | 989 | 889 | 882 | 904 | 928 | 766 | 752 |  |  |  |  |  |  |  | | Bouygues | 321 | 344 | 370 | 237 | 296 | 263 | 248 | 101 | 212 | 257 | 258 | 153 |  |  |  | | SFR | 762 | 794 | 797 | 635 | 924 | 924 | 887 | 564 | 702 | 768 | 731 |  |  |  |  | | **Capex, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange (FT) | 134 | 134 | 179 | 179 | 155 | 155 | 192 | 192 |  |  |  |  |  |  |  | |
| Source: Citi Research and Company Reports |

## France Fixed Data

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| --- |
| Figure 273. France Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **France** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 9,308 | 9,371 | 9,478 | 9,598 | 9,671 | 9,749 | 9,827 | 9,893 | 9,934 | 9,975 | 10,046 | 10,108 | 10,139 | 10,174 | 10,258 | | Incumbent wholesale | 2,319 | 2,284 | 2,301 | 2,248 | 2,155 | 2,119 | 2,177 | 2,187 | 2,140 | 2,153 | 2,147 | 2,164 | 2,191 | 2,191 | 2,185 | | ULL (total) | 9,232 | 9,456 | 9,670 | 9,941 | 10,283 | 10,489 | 10,685 | 10,910 | 11,168 | 11,256 | 11,434 | 11,611 | 11,833 | 11,960 | 12,122 | | Cable | 934 | 939 | 945 | 950 | 959 | 958 | 962 | 985 | 1,006 | 1,015 | 1,032 | 1,054 | 1,062 | 1,075 | 1,095 | | **Total** | **21,792** | **22,050** | **22,393** | **22,737** | **23,068** | **23,315** | **23,652** | **23,975** | **24,248** | **24,399** | **24,659** | **24,937** | **25,225** | **25,400** | **25,660** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange | 9,308 | 9,371 | 9,478 | 9,598 | 9,671 | 9,749 | 9,827 | 9,893 | 9,934 | 9,975 | 10,046 | 10,108 | 10,139 | 10,174 | 10,258 | | SFR | 4,952 | 4,983 | 5,012 | 5,019 | 4,994 | 5,016 | 5,040 | 5,075 | 5,131 | 5,164 | 5,209 | 5,245 | 5,290 | 5,316 | 5,324 | | Iliad | 4,661 | 4,717 | 4,790 | 4,849 | 5,040 | 5,147 | 5,257 | 5,364 | 5,456 | 5,518 | 5,580 | 5,640 | 5,711 | 5,735 | 5,805 | | Numericable | 934 | 939 | 945 | 950 | 959 | 958 | 962 | 985 | 1,006 | 1,015 | 1,032 | 1,054 | 1,062 | 1,075 | 1,095 | | 4th Operator | 940 | 1,023 | 1,119 | 1,241 | 1,329 | 1,399 | 1,758 | 1,846 | 1,891 | 1,901 | 1,941 | 2,013 | 2,113 | 2,215 | 2,319 | | **Total** | **21,792** | **22,050** | **22,393** | **22,737** | **23,068** | **23,315** | **23,652** | **23,975** | **24,248** | **24,399** | **24,659** | **24,937** | **25,225** | **25,400** | **25,660** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange | 101 | 63 | 107 | 120 | 73 | 78 | 78 | 66 | 41 | 41 | 71 | 62 | 31 | 35 | 84 | | SFR | 65 | 31 | 29 | 7 | (25) | 22 | 24 | 35 | 56 | 33 | 45 | 36 | 45 | 26 | 8 | | Iliad | 127 | 56 | 73 | 59 | 191 | 107 | 110 | 107 | 92 | 62 | 62 | 60 | 71 | 24 | 70 | | Numericable | 6 | 6 | 6 | 6 | 9 | (1) | 4 | 23 | 21 | 9 | 17 | 22 | 8 | 13 | 20 | | 4th Operator | 132 | 83 | 96 | 122 | 88 | 70 | 359 | 88 | 45 | 10 | 40 | 72 | 100 | 102 | 104 | | **Total** | **465** | **258** | **343** | **344** | **331** | **247** | **337** | **323** | **273** | **151** | **260** | **278** | **288** | **175** | **260** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 23,482 | 23,108 | 22,835 | 22,580 | 22,201 | 21,857 | 21,581 | 21,304 | 20,973 | 20,958 | 20,713 | 20,481 | 20,227 | 19,987 | 19,868 | | Incumbent wholesale (WLR) | 1,318 | 1,363 | 1,396 | 1,427 | 1,449 | 1,470 | 1,487 | 1,498 | 1,508 | 1,518 | 1,528 | 1,538 | 1,548 | 1,558 | 1,568 | | ULL (full) | 8,071 | 8,322 | 8,577 | 8,886 | 9,277 | 9,513 | 9,745 | 10,004 | 10,287 | 10,399 | 10,603 | 10,805 | 11,052 | 11,204 | 11,391 | | Naked DSL | 1,223 | 1,212 | 1,170 | 1,115 | 1,085 | 1,078 | 1,080 | 1,076 | 1,072 | 1,068 | 1,064 | 1,060 | 1,056 | 1,052 | 1,048 | | Cable | 903 | 908 | 914 | 946 | 929 | 911 | 919 | 911 | 946 | 981 | 1,000 | 1,024 | 1,034 | 1,049 | 1,070 | | **Total** | **34,997** | **34,913** | **34,892** | **34,954** | **34,939** | **34,829** | **34,812** | **34,792** | **34,785** | **34,924** | **34,908** | **34,908** | **34,917** | **34,850** | **34,945** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (501) | (374) | (273) | (255) | (379) | (344) | (276) | (277) | (331) | (15) | (245) | (232) | (254) | (240) | (119) | | Incumbent wholesale | 51 | 45 | 33 | 31 | 22 | 21 | 17 | 11 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | | ULL (full) | 381 | 251 | 255 | 309 | 391 | 236 | 232 | 259 | 283 | 113 | 204 | 202 | 247 | 152 | 187 | | Naked DSL | 4 | (11) | (42) | (55) | (30) | (7) | 2 | (5) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | | Cable | 6 | 6 | 6 | 33 | (18) | (18) | 8 | (8) | 35 | 35 | 19 | 24 | 10 | 15 | 21 | | **Total** | **(60)** | **(84)** | **(22)** | **63** | **(15)** | **(110)** | **(17)** | **(20)** | **(7)** | **139** | **(17)** | **0** | **9** | **(67)** | **95** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange | 3,711 | 3,896 | 4,124 | 4,374 | 4,555 | 4,703 | 4,882 | 5,067 | 5,208 | 5,322 | 5,463 | 5,619 | 5,709 | 5,776 | 5,902 | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange | 206 | 185 | 228 | 250 | 181 | 148 | 179 | 186 | 140 | 114 | 141 | 156 | 90 | 67 | 126 | | **Other** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange FTTH customers | 65 | 73 | 82 | 95 | 108 | 123 | 144 | 176 | 206 | 239 | 273 | 319 | 365 | 415 | 481 | |
| Source: Citi Research and Company Reports |

## 

Germany

### Fixed

* DT’s retail line loss improved to -193k in 3Q14 vs -255k in 3Q13 however slightly deteriorated sequentially with 2Q net adds at 168k. Total market line loss also deteriorated to -185k in 3Q14 from -170k in 2Q mainly due to ULL and incumbent retail line losses partly offset by strong cable net adds. Market broadband net adds were strong at 156k in 3Q14 vs. 110k in 3Q13 while lower than182k in 2Q14 . Cable operators continue to take share. DT’s TV subscriber net adds remained stable at 59k in 3Q14 vs.63k in 2Q14.

### Mobile

* Market service revenue growth excluding MTR cuts improved to -0.7% vs. -2.4% in 2Q14 mainly attributable to KPN with +3.9% growth in 3Q.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 274. Telephony Net Adds |  | Figure 275. High speed broadband take-up (% of total households) |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 276. Broadband Subscriber Net Adds |  | Figure 277. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 278. Revenue and GDP |  | Figure 279. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 280. Post-Paid Net Adds |  | Figure 281. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 282. Service revenue growth (excl MTR cuts) |  | Figure 283. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Germany Mobile Data

|  |
| --- |
| Figure 284. Germany Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Germany** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T-Mobile (DT) | 1,690 | 1,706 | 1,757 | 1,728 | 1,660 | 1,690 | 1,749 | 1,680 | 1,628 | 1,673 | 1,700 | 1,640 | 1,631 | 1,668 | 1,699 | | Vodafone | 1,628 | 1,646 | 1,702 | 1,701 | 1,695 | 1,725 | 1,744 | 1,708 | 1,650 | 1,635 | 1,626 | 1,567 | 1,549 | 1,546 | 1,571 | | O2 (Telefónica) | 686 | 727 | 769 | 765 | 758 | 789 | 812 | 793 | 733 | 748 | 765 | 743 | 707 | 728 | 754 | | KPN | 726 | 768 | 805 | 790 | 767 | 791 | 809 | 782 | 714 | 764 | 752 | 759 | 731 | 760 | 780 | | **Total** | **4,730** | **4,847** | **5,033** | **4,984** | **4,880** | **4,995** | **5,114** | **4,963** | **4,725** | **4,820** | **4,843** | **4,709** | **4,618** | **4,702** | **4,804** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T-Mobile (DT) | (1.3%) | (3.4%) | (3.1%) | (1.6%) | (1.8%) | (0.9%) | (0.5%) | (2.8%) | (1.9%) | (1.0%) | (2.8%) | (2.4%) | 0.2% | (0.3%) | (0.1%) | | Vodafone | 0.1% | 0.3% | 0.0% | 0.9% | 4.1% | 4.8% | 2.5% | 0.4% | (2.7%) | (5.2%) | (6.7%) | (8.3%) | (6.1%) | (5.4%) | (3.4%) | | O2 (Telefónica) | (2.3%) | 0.1% | 1.9% | 2.1% | 10.5% | 8.5% | 5.6% | 3.7% | (3.3%) | (5.2%) | (5.8%) | (6.3%) | (3.5%) | (2.7%) | (1.4%) | | KPN | (0.4%) | (0.5%) | 0.6% | 2.7% | 5.6% | 3.0% | 0.5% | (1.0%) | (6.9%) | (3.4%) | (7.0%) | (2.9%) | 2.4% | (0.5%) | 3.7% | | **Total** | **(0.8%)** | **(1.2%)** | **(0.7%)** | **0.5%** | **3.2%** | **3.0%** | **1.6%** | **(0.4%)** | **(3.2%)** | **(3.5%)** | **(5.3%)** | **(5.1%)** | **(2.3%)** | **(2.4%)** | **(0.8%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T-Mobile (DT) | 35.7% | 35.2% | 34.9% | 34.7% | 34.0% | 33.8% | 34.2% | 33.8% | 34.5% | 34.7% | 35.1% | 34.8% | 35.3% | 35.5% | 35.4% | | Vodafone | 34.4% | 34.0% | 33.8% | 34.1% | 34.7% | 34.5% | 34.1% | 34.4% | 34.9% | 33.9% | 33.6% | 33.3% | 33.5% | 32.9% | 32.7% | | O2 (Telefónica) | 14.5% | 15.0% | 15.3% | 15.3% | 15.5% | 15.8% | 15.9% | 16.0% | 15.5% | 15.5% | 15.8% | 15.8% | 15.3% | 15.5% | 15.7% | | KPN | 15.3% | 15.8% | 16.0% | 15.8% | 15.7% | 15.8% | 15.8% | 15.8% | 15.1% | 15.9% | 15.5% | 16.1% | 15.8% | 16.2% | 16.2% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T-Mobile (DT) | 17,198 | 17,368 | 17,834 | 18,221 | 18,114 | 18,578 | 19,133 | 19,570 | 20,011 | 20,445 | 20,915 | 21,553 | 22,104 | 22,379 | 22,812 | | Vodafone | 14,988 | 15,094 | 15,217 | 15,389 | 15,510 | 15,662 | 15,621 | 15,547 | 15,522 | 15,523 | 15,258 | 15,381 | 15,500 | 15,504 | 15,634 | | O2 (Telefónica) | 8,460 | 8,713 | 8,965 | 9,236 | 9,529 | 9,718 | 9,889 | 10,109 | 10,201 | 10,261 | 10,316 | 10,286 | 10,364 | 10,516 | 10,660 | | KPN | 7,188 | 7,290 | 7,382 | 7,493 | 7,598 | 7,777 | 7,987 | 7,657 | 7,922 | 8,132 | 8,339 | 8,593 | 8,790 | 8,879 | 9,041 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Deutsche Telekom | 8,936 | 9,016 | 9,268 | 9,175 | 8,989 | 8,892 | 8,897 | 9,143 | 8,939 | 9,498 | 9,504 | 9,532 | 9,332 | 9,536 | 9,834 | | Vodafone | 10,270 | 10,470 | 10,657 | 11,141 | 11,342 | 11,400 | 11,517 | 11,864 | 11,765 | 12,269 | 12,062 | 12,274 | 12,099 | 12,321 | 12,104 | | Telefónica | 6,859 | 7,018 | 6,907 | 7,208 | 7,365 | 7,399 | 7,228 | 7,528 | 7,444 | 7,691 | 7,497 | 7,520 | 7,572 | 7,775 | 7,398 | | KPN | 9,379 | 9,567 | 9,371 | 9,556 | 9,408 | 9,360 | 9,120 | 9,314 | 9,233 | 9,650 | 9,526 | 9,925 | 10,055 | 10,465 | 10,485 | | **Total** | **35,443** | **36,071** | **36,202** | **37,080** | **37,104** | **37,051** | **36,762** | **37,849** | **37,381** | **39,109** | **38,589** | **39,250** | **39,058** | **40,096** | **39,821** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Deutsche Telekom | 3.6% | 2.0% | 1.2% | (2.3%) | 0.6% | (1.4%) | (4.0%) | (0.4%) | (0.6%) | 6.8% | 6.8% | 4.3% | 4.4% | 0.4% | 3.5% | | Vodafone | 5.9% | 6.9% | 9.1% | 7.5% | 10.4% | 8.9% | 8.1% | 6.5% | 3.7% | 7.6% | 4.7% | 3.5% | 2.8% | 0.4% | 0.3% | | Telefónica | 10.2% | 11.4% | 9.8% | 7.1% | 7.4% | 5.4% | 4.6% | 4.4% | 1.1% | 3.9% | 3.7% | (0.1%) | 1.7% | 1.1% | (1.3%) | | KPN | 10.4% | 7.9% | 6.9% | 0.6% | 0.3% | (2.2%) | (2.7%) | (2.5%) | (1.9%) | 3.1% | 4.4% | 6.6% | 8.9% | 8.4% | 10.1% | | **Total** | **7.3%** | **6.7%** | **6.5%** | **3.1%** | **4.7%** | **2.7%** | **1.5%** | **2.1%** | **0.7%** | **5.6%** | **5.0%** | **3.7%** | **4.5%** | **2.5%** | **3.2%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T-Mobile (DT) | 12.0% | 13.2% | 13.2% | 14.4% | 19.2% | 12.0% | 12.0% | 13.2% | 13.2% | 14.4% | 13.2% | 12.0% | 13.2% | 16.8% | 19.2% | | Vodafone | 14.1% | 14.8% | 15.4% | 15.4% | 13.7% | 13.2% | 14.3% | 17.5% | 16.4% | 16.0% | 16.4% | 16.6% | 15.9% | 16.5% | 16.2% | | KPN | 23.0% | 22.0% | 21.0% | 25.0% | 21.0% | 20.0% | 23.0% | 21.5% | 17.0% | 19.0% | 21.0% | 20.0% | 19.0% | 21.0% | 20.0% | | **Data Revenue (excl messaging) % Service Revenue** | | | | | | | | | | | | | | | | | Vodafone | 24.7% | 25.0% | 25.8% | 27.0% | 27.9% | 28.5% | 28.7% | 29.7% | 31.8% | 32.2% | 32.9% | 34.7% | 36.1% | 36.7% | 37.1% | | O2 (Telefónica) | 18.9% | 20.7% | 21.4% | 22.2% | 24.0% | 24.1% | 25.6% | 27.3% | 30.9% | 31.9% | 32.5% | 34.5% | 35.7% | 35.4% | 36.0% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 849 | 867 | 896 | 837 | 834 | 850 | 859 | 838 | 809 | 781 | 777 | 826 | 816 | 855 | 868 | | O2 (Telefónica) | 261 | 297 | 314 | 347 | 295 | 333 | 339 | 343 | 294 | 294 | 315 | 300 | 251 | 252 | 240 | | KPN | 301 | 335 | 354 | 363 | 303 | 335 | 323 | 329 | 195 | 275 | 229 | 264 | 223 | 265 | 244 | | **Capex, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 281 | 233 | 233 | 278 | 278 | 278 | 278 | 379 | 379 | 331 | 331 | 448 | 448 |  |  | | O2 (Telefónica) | 114 | 129 | 129 | 185 | 134 | 136 | 181 | 157 | 146 | 151 | 171 | 157 | 132 | 134 | 145 | | KPN | 91 | 126 | 154 | 228 | 111 | 150 | 111 | 271 | 102 | 133 | 126 | 273 | 83 | 89 | 141 | |
| Source: Citi Research and Company Reports |

## Germany Fixed Data

|  |
| --- |
| Figure 285. Germany Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Germany** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 12,069 | 12,153 | 12,201 | 12,265 | 12,367 | 12,414 | 12,424 | 12,427 | 12,443 | 12,430 | 12,383 | 12,360 | 12,354 | 12,361 | 12,340 | | Incumbent wholesale | 1,999 | 1,975 | 1,955 | 1,926 | 1,910 | 1,884 | 1,845 | 1,821 | 1,845 | 1,873 | 1,914 | 1,954 | 2,037 | 2,153 | 2,294 | | ULL (total) | 9,570 | 9,562 | 9,570 | 9,598 | 9,602 | 9,582 | 9,453 | 9,436 | 9,422 | 9,359 | 9,299 | 9,257 | 9,207 | 9,101 | 8,954 | | Cable | 2,762 | 2,905 | 3,073 | 3,245 | 3,436 | 3,599 | 3,768 | 3,960 | 4,148 | 4,310 | 4,486 | 4,668 | 4,839 | 5,004 | 5,187 | | **Total** | **26,400** | **26,595** | **26,799** | **27,034** | **27,315** | **27,479** | **27,490** | **27,644** | **27,858** | **27,972** | **28,082** | **28,239** | **28,437** | **28,619** | **28,775** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Deutsche Telekom | 12,069 | 12,153 | 12,201 | 12,265 | 12,367 | 12,414 | 12,424 | 12,427 | 12,443 | 12,430 | 12,383 | 12,360 | 12,354 | 12,361 | 12,340 | | Hansenet (TEF) | 2,591 | 2,620 | 2,603 | 2,588 | 2,547 | 2,491 | 2,430 | 2,376 | 2,336 | 2,295 | 2,266 | 2,244 | 2,226 | 2,191 | 2,161 | | United Internet | 3,230 | 3,220 | 3,210 | 3,200 | 3,210 | 3,230 | 3,250 | 3,270 | 3,290 | 3,310 | 3,330 | 3,350 | 3,370 | 3,390 | 3,410 | | Vodafone | 3,470 | 3,449 | 3,440 | 3,433 | 3,391 | 3,348 | 3,280 | 3,207 | 3,136 | 3,077 | 3,016 | 2,974 | 3,043 | 2,920 | 2,887 | | Versatel | 622 | 602 | 585 | 565 | 545 | 545 | 545 | 545 | 545 | 545 | 545 | 545 | 545 | 545 | 545 | | Tele2 | 112 | 110 | 105 | 100 | 93 | 90 | 97 | 82 | 78 | 75 | 73 | 71 | 68 | 67 | 66 | | Kabel Deutschland | 1,260 | 1,314 | 1,377 | 1,446 | 1,518 | 1,583 | 1,657 | 1,741 | 1,829 | 1,906 | 1,995 | 2,088 | 2,178 | 2,261 | 2,369 | | Liberty Global | 1,502 | 1,591 | 1,696 | 1,799 | 1,918 | 2,016 | 2,111 | 2,219 | 2,319 | 2,404 | 2,491 | 2,580 | 2,661 | 2,743 | 2,818 | | Other | 1,544 | 1,536 | 1,583 | 1,638 | 1,726 | 1,762 | 1,696 | 1,777 | 1,882 | 1,930 | 1,983 | 2,027 | 1,992 | 2,141 | 2,179 | | **Total** | **26,400** | **26,595** | **26,799** | **27,034** | **27,315** | **27,479** | **27,490** | **27,644** | **27,858** | **27,972** | **28,082** | **28,239** | **28,437** | **28,619** | **28,775** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Deutsche Telekom | 115 | 84 | 48 | 64 | 102 | 47 | 10 | 3 | 16 | (13) | (47) | (23) | (6) | 7 | (21) | | Hansenet (TEF) | 62 | 30 | (18) | (15) | (41) | (56) | (61) | (54) | (41) | (41) | (29) | (22) | (18) | (35) | (30) | | United Internet | (30) | (10) | (10) | (10) | 10 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | | Vodafone | (24) | (21) | (9) | (7) | (42) | (43) | (68) | (73) | (71) | (59) | (61) | (42) | 69 | (123) | (33) | | Versatel | (2) | (20) | (17) | (20) | (20) |  |  |  |  |  |  |  |  |  |  | | Tele2 | (4) | (2) | (5) | (5) | (7) | (3) | 7 | (15) | (4) | (3) | (2) | (2) | (3) | (1) | (1) | | Kabel Deutschland | 107 | 54 | 63 | 69 | 72 | 65 | 74 | 84 |  |  |  |  |  |  |  | | Liberty Global | 95 | 89 | 105 | 103 | 119 | 98 | 95 | 108 | 100 | 85 | 87 | 89 | 82 | 82 | 75 | | **Total** | **367** | **195** | **204** | **235** | **281** | **164** | **11** | **154** | **214** | **114** | **110** | **157** | **199** | **182** | **156** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 24,312 | 24,017 | 23,694 | 23,399 | 23,140 | 22,904 | 22,620 | 22,384 | 22,113 | 21,880 | 21,625 | 21,417 | 21,202 | 21,034 | 20,841 | | Incumbent wholesale | 957 | 951 | 941 | 918 | 920 | 897 | 909 | 869 | 865 | 825 | 863 | 873 | 856 | 845 | 840 | | ULL (full) | 9,570 | 9,562 | 9,570 | 9,598 | 9,602 | 9,582 | 9,453 | 9,436 | 9,422 | 9,359 | 9,299 | 9,257 | 9,207 | 9,101 | 8,954 | | Cable | 2,759 | 2,926 | 3,116 | 3,310 | 3,498 | 3,657 | 3,815 | 3,985 | 4,154 | 4,280 | 4,415 | 4,568 | 4,710 | 4,825 | 4,985 | | **Total** | **37,598** | **37,456** | **37,321** | **37,225** | **37,160** | **37,040** | **36,797** | **36,674** | **36,554** | **36,344** | **36,202** | **36,115** | **35,975** | **35,805** | **35,620** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (338) | (295) | (323) | (295) | (259) | (236) | (284) | (236) | (271) | (233) | (255) | (208) | (215) | (168) | (193) | | Incumbent wholesale | (82) | (6) | (10) | (23) | 2 | (23) | 12 | (40) | (4) | (40) | 38 | 10 | (17) | (11) | (5) | | ULL (full) | 72 | (8) | 8 | 28 | 4 | (20) | (129) | (17) | (14) | (63) | (60) | (42) | (50) | (106) | (147) | | Cable | 225 | 166 | 191 | 194 | 188 | 159 | 158 | 170 | 169 | 126 | 134 | 153 | 143 | 115 | 160 | | **Total** | **(123)** | **(143)** | **(134)** | **(96)** | **(65)** | **(120)** | **(243)** | **(123)** | **(120)** | **(210)** | **(143)** | **(87)** | **(139)** | **(170)** | **(185)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | DT | 1,257 | 1,301 | 1,375 | 1,553 | 1,725 | 1,830 | 1,906 | 1,966 | 2,036 | 2,078 | 2,121 | 2,177 | 2,255 | 2,318 | 2,377 | | Sky Deutschland | 2,726 | 2,759 | 2,857 | 3,012 | 3,085 | 3,132 | 3,212 | 3,363 | 3,405 | 3,453 | 3,529 | 3,667 | 3,731 | 3,813 | 3,908 | | Kabel Deutschland | 8,877 | 8,856 | 8,838 | 8,811 | 8,702 | 8,701 | 8,660 | 8,659 | 8,617 | 8,498 | 8,392 | 8,392 | 8,301 | 8,251 | 8,210 | | Liberty Global | 6,799 | 6,790 | 6,784 | 6,752 | 6,744 | 6,739 | 6,714 | 6,689 | 6,667 | 6,650 | 6,628 | 6,601 | 6,585 | 6,585 | 6,565 | | **Total** | **19,738** | **19,786** | **19,937** | **20,211** | **20,335** | **20,475** | **20,557** | **20,734** | **20,776** | **20,725** | **20,711** | **20,837** | **20,872** | **20,967** | **21,060** | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | DT | 101 | 44 | 74 | 178 | 172 | 105 | 76 | 60 | 70 | 42 | 43 | 56 | 78 | 63 | 59 | | Sky Deutschland | 73 | 33 | 98 | 155 | 73 | 47 | 80 | 151 | 42 | 48 | 76 | 138 | 64 | 82 | 95 | | Kabel Deutschland | (53) | (21) | (18) | (28) | (109) | (1) | (41) | (1) |  |  |  |  |  |  |  | | Unity Media | (5) | (9) | (6) | (32) | (8) | (5) | (25) | (25) | (22) | (18) | (22) | (26) | (17) | 0 | (20) | | **Total** | **118** | **48** | **151** | **274** | **124** | **140** | **82** | **178** | **42** | **(52)** | **(13)** | **126** | **34** | **95** | **93** | | **Other** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | DT VDSL customers | 403 | 454 | 520 | 608 | 674 | 722 | 807 | 905 | 1,014 | 1,096 | 1,165 | 1,246 | 1,375 | 1,494 | 1,608 | |
| Source: Citi Research and Company Reports |

Greece

### Fixed

* Fixed line trends improved at -6.0% retail line loss in 3Q14 vs. -6.8% in 2Q14. Total market line loss improved at -1.7% yoy in 3Q vs -2.3% in 2Q.

### Mobile

* Service revenue growth excluding MTR cuts improved slightly to -4.7% in 3Q vs. -6.2% in 2Q14 and -6.6% in 1Q14. Minutes traffic remained strong at 3.7% in 3Q14 (3.6% in 2Q14).

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 286. Telephony Net Adds |  | Figure 287. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 288. Broadband Subscriber Net Adds |  | Figure 289. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 290. Revenue and GDP |  | Figure 291. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 292. Total Net Adds |  | Figure 293. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 294. Service revenue growth (excl MTR cuts) |  | Figure 295. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Greece Mobile Data

|  |
| --- |
| Figure 296. Greece Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Greece** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 322 | 349 | 382 | 334 | 326 | 363 | 334 | 292 | 263 | 298 | 284 | 255 | 243 | 278 | 267 | | Vodafone | 207 | 219 | 239 | 211 | 198 | 199 | 211 | 180 | 159 | 162 | 170 | 155 | 150 | 153 | 164 | | Wind | 138 | 145 | 155 | 153 | 136 | 143 | 136 | 132 | 110 | 118 | 113 | 115 | 102 | 110 | 107 | | **Total** | **667** | **713** | **777** | **698** | **659** | **705** | **681** | **604** | **532** | **578** | **567** | **525** | **495** | **542** | **538** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | (17.0%) | (8.2%) | (2.0%) | (4.5%) | 1.0% | 4.0% | (12.6%) | (12.4%) | (19.1%) | (17.8%) | (15.1%) | (12.6%) | (7.6%) | (6.8%) | (5.9%) | | Vodafone | (21.8%) | (15.6%) | (8.5%) | (8.8%) | (4.6%) | (9.2%) | (11.8%) | (15.0%) | (19.7%) | (18.3%) | (19.5%) | (13.9%) | (5.7%) | (5.5%) | (3.5%) | | Wind | (18.9%) | (11.2%) | (4.6%) | (6.2%) | (1.2%) | (1.1%) | (12.3%) | (13.4%) | (19.3%) | (18.0%) | (16.8%) | (13.1%) | (6.9%) | (6.3%) | (5.0%) | | **Total** | **(18.9%)** | **(11.2%)** | **(4.6%)** | **(6.2%)** | **(1.2%)** | **(1.1%)** | **(12.3%)** | **(13.4%)** | **(19.3%)** | **(18.0%)** | **(16.8%)** | **(13.1%)** | **(6.9%)** | **(6.3%)** | **(5.0%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 48.3% | 49.0% | 49.2% | 47.8% | 49.4% | 51.5% | 49.1% | 48.4% | 49.5% | 51.6% | 50.1% | 48.6% | 49.1% | 51.3% | 49.6% | | Vodafone | 31.0% | 30.7% | 30.8% | 30.3% | 30.0% | 28.2% | 31.0% | 29.7% | 29.8% | 28.1% | 29.9% | 29.4% | 30.2% | 28.3% | 30.4% | | Wind | 20.7% | 20.4% | 20.0% | 21.9% | 20.7% | 20.4% | 20.0% | 21.9% | 20.7% | 20.4% | 20.0% | 21.9% | 20.7% | 20.4% | 20.0% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 2,302 | 2,276 | 2,319 | 2,321 | 2,292 | 2,286 | 2,286 | 2,302 | 2,286 | 2,284 | 2,262 | 2,262 | 2,224 | 2,224 | 2,222 | | Vodafone | 1,609 | 1,598 | 1,604 | 1,601 | 1,590 | 1,584 | 1,572 | 1,565 | 1,547 | 1,536 | 1,555 | 1,561 | 1,564 | 1,576 | 1,586 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 6,643 | 7,268 | 6,882 | 6,689 | 6,496 | 6,743 | 6,660 | 6,616 | 6,369 | 6,672 | 6,750 | 6,672 | 6,277 | 6,710 | 6,829 | | Vodafone | 2,288 | 2,461 | 2,347 | 2,207 | 2,132 | 2,255 | 2,339 | 2,196 | 2,134 | 2,345 | 2,487 | 2,418 | 2,371 | 2,631 | 2,750 | | **Total** | **9,997** | **11,057** | **10,474** | **10,113** | **9,628** | **10,171** | **10,187** | **10,007** | **9,485** | **10,190** | **10,445** | **10,311** | **9,644** | **10,558** | **10,838** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 16.5% | 12.0% | 3.0% | (4.3%) | (2.2%) | (7.2%) | (3.2%) | (1.1%) | (1.9%) | (1.1%) | 1.4% | 0.9% | (1.4%) | 0.6% | 1.2% | | Vodafone | 3.0% | 0.9% | (5.6%) | (8.4%) | (6.8%) | (8.4%) | (0.3%) | (0.5%) | 0.1% | 4.0% | 6.3% | 10.1% | 11.1% | 12.2% | 10.6% | | **Total** | **8.6%** | **5.2%** | **(2.6%)** | **(7.0%)** | **(3.7%)** | **(8.0%)** | **(2.7%)** | **(1.1%)** | **(1.5%)** | **0.2%** | **2.5%** | **3.0%** | **1.7%** | **3.6%** | **3.8%** | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 139 | 152 | 183 | 143 | 153 | 161 | 163 | 136 | 121 | 132 | 140 | 106 | 138 | 116 | 134 | | Vodafone | 60 | 72 | 78 | 43 | 40 | 61 | 65 | 56 | 50 | 48 | 50 | 49 | 48 | 46 | 49 | |
| Source: Citi Research and Company Reports |

## Greece Fixed Data

|  |
| --- |
| Figure 297. Greece Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Greece** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,092 | 1,079 | 1,081 | 1,067 | 1,061 | 1,077 | 1,108 | 1,140 | 1,145 | 1,168 | 1,178 | 1,183 | 1,207 | 1,239 | 1,286 | | Incumbent wholesale | 62 | 61 | 61 | 60 | 60 | 61 | 63 | 65 | 65 | 66 | 67 | 67 | 68 | 70 | 73 | | ULL (total) | 1,165 | 1,219 | 1,261 | 1,332 | 1,370 | 1,399 | 1,404 | 1,436 | 1,462 | 1,479 | 1,489 | 1,526 | 1,555 | 1,576 | 1,588 | | **Total** | **2,319** | **2,359** | **2,403** | **2,460** | **2,490** | **2,537** | **2,575** | **2,641** | **2,672** | **2,713** | **2,734** | **2,776** | **2,831** | **2,885** | **2,947** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 1,092 | 1,079 | 1,081 | 1,067 | 1,061 | 1,077 | 1,108 | 1,140 | 1,145 | 1,168 | 1,178 | 1,183 | 1,207 | 1,239 | 1,286 | | Forthnet | 496 | 502 | 511 | 528 | 527 | 518 | 526 | 565 | 573 | 598 | 610 | 632 | 664 | 668 | 673 | | Hellas Online | 425 | 444 | 456 | 474 | 479 | 480 | 481 | 482 | 482 | 493 | 506 | 516 | 526 | 536 | 546 | | - other | 305 | 335 | 355 | 391 | 424 | 462 | 460 | 453 | 471 | 455 | 439 | 444 | 434 | 442 | 441 | | **Total** | **2,319** | **2,359** | **2,403** | **2,460** | **2,490** | **2,537** | **2,575** | **2,641** | **2,672** | **2,713** | **2,734** | **2,776** | **2,831** | **2,885** | **2,947** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 0 | (14) | 2 | (14) | (6) | 16 | 32 | 32 | 5 | 22 | 11 | 4 | 24 | 32 | 47 | | Forthnet | 13 | 5 | 9 | 17 | (1) | (9) | 8 | 39 | 8 | 24 | 12 | 22 | 31 | 4 | 5 | | **Total** | 34 | 40 | 44 | 57 | 31 | 47 | 38 | 66 | 31 | 41 | 21 | 42 | 55 | 55 | 61 | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Retail Narrowband Lines | 4,369 | 4,247 | 4,128 | 3,999 | 3,910 | 3,783 | 3,712 | 3,642 | 3,591 | 3,490 | 3,425 | 3,363 | 3,322 | 3,254 | 3,218 | | WLR | 87 | 95 | 91 | 82 | 75 | 68 | 64 | 64 | 64 | 55 | 52 | 50 | 48 | 46 | 44 | | LLU (partial+full) | 1,456 | 1,524 | 1,576 | 1,665 | 1,712 | 1,749 | 1,755 | 1,795 | 1,827 | 1,849 | 1,861 | 1,907 | 1,944 | 1,970 | 1,985 | | **Total** | **5,911** | **5,866** | **5,795** | **5,746** | **5,697** | **5,600** | **5,531** | **5,501** | **5,482** | **5,394** | **5,338** | **5,320** | **5,314** | **5,269** | **5,247** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Retail Narrowband Lines | (114) | (121) | (119) | (129) | (89) | (127) | (71) | (70) | (52) | (100) | (65) | (62) | (40) | (69) | (36) | | WLR | 15 | 8 | (4) | (9) | (7) | (7) | (4) | (0) | 0 | (9) | (3) | (2) | (2) | (2) | (2) | | LLU (partial+full) | 42 | 68 | 52 | 89 | 47 | 37 | 5 | 40 | 33 | 21 | 12 | 47 | 37 | 25 | 15 | | **Total** | **(58)** | **(45)** | **(71)** | **(48)** | **(49)** | **(97)** | **(69)** | **(30)** | **(19)** | **(88)** | **(56)** | **(18)** | **(6)** | **(45)** | **(22)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 56 | 54 | 56 | 60 | 63 | 76 | 97 | 120 | 149 | 175 | 218 | 256 | 279 | 296 | 321 | | Cablecom (UPC) | 360 | 350 | 373 | 391 | 360 | 331 | 367 | 397 | 374 | 373 | 420 | 452 | 482 | 483 | 504 | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | OTE | 6 | (2) | 1 | 4 | 4 | 13 | 21 | 23 | 29 | 26 | 43 | 38 | 23 | 17 | 25 | | Fothnet | (20) | (10) | 23 | 18 | (32) | (29) | 37 | 30 | (24) | (1) | 47 | 33 | 30 | 0 | 22 | |
| Source: Citi Research and Company Reports |

Italy

### Fixed

* Incumbent's retail line loss improved to -179k from -210k in Q2. Total market line loss deteriorated to -275k from -166k in Q2 mainly attributable to LLU line losses. Fixed broadband net adds were also deteriorated -88k in 3Q vs +63k in 3Q14.

### Mobile

* Growth excluding MTR cuts improved to -8.7% in Q3 vs. -11.6% in Q2. Minutes growth remained strong at 8.2%, although slowed slightly from 11.6% in 2Q14, mainly driven by Vodafone, but this continues to be offset by price cuts

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 298. Telephony Net Adds |  | Figure 299. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 300. Broadband Subscriber Net Adds |  | Figure 301. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 302. Revenue and GDP |  | Figure 303. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 304. Subscriber Net Adds |  | Figure 305. Service Revenue Growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 306. Service revenue growth (excl MTR cuts) |  | Figure 307. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Italy Mobile Data

|  |
| --- |
| Figure 308. Italy Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Italy** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 1,634 | 1,735 | 1,727 | 1,658 | 1,573 | 1,606 | 1,503 | 1,464 | 1,292 | 1,312 | 1,280 | 1,255 | 1,099 | 1,138 | | Vodafone | 1,779 | 1,824 | 1,819 | 1,748 | 1,700 | 1,668 | 1,573 | 1,492 | 1,390 | 1,344 | 1,286 | 1,203 | 1,109 | 1,090 | | Wind | 934 | 984 | 975 | 955 | 933 | 954 | 899 | 888 | 810 | 824 | 838 | 798 | 725 | 731 | | 3 (Hutch) | 431 | 431 | 441 | 441 | 431 | 431 | 423 | 423 | 396 | 396 | 389 | 406 | 385 | 385 | | **Total** | **4,778** | **4,974** | **4,961** | **4,802** | **4,637** | **4,658** | **4,397** | **4,268** | **3,888** | **3,877** | **3,793** | **3,662** | **3,317** | **3,343** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | (11.7%) | (10.4%) | (7.5%) | (7.1%) | (3.7%) | (7.4%) | (13.0%) | (11.7%) | (17.9%) | (18.3%) | (14.8%) | (14.3%) | (14.9%) | (13.2%) | | Vodafone | (5.0%) | (2.9%) | (4.8%) | (6.3%) | (4.5%) | (8.6%) | (13.5%) | (14.6%) | (18.2%) | (19.4%) | (18.3%) | (19.4%) | (20.3%) | (18.9%) | | Wind | 3.6% | 0.0% | (1.0%) | (2.3%) | (0.1%) | (3.1%) | (7.8%) | (7.0%) | (13.2%) | (13.6%) | (6.7%) | (10.2%) | (10.5%) | (11.3%) | | 3 (Hutch) | 2.0% | 2.0% | 2.4% | 2.4% | 0.0% | 0.0% | (4.0%) | (4.0%) | (8.0%) | (8.0%) | (8.0%) | (4.0%) | (3.0%) | (3.0%) | | **Total** | **(5.3%)** | **(4.7%)** | **(4.4%)** | **(5.0%)** | **(3.0%)** | **(6.3%)** | **(11.4%)** | **(11.1%)** | **(16.1%)** | **(16.8%)** | **(13.7%)** | **(14.2%)** | **(14.7%)** | **(13.8%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 34.2% | 34.9% | 34.8% | 34.5% | 33.9% | 34.5% | 34.2% | 34.3% | 33.2% | 33.8% | 33.7% | 34.3% | 33.1% | 34.0% | | Vodafone | 37.2% | 36.7% | 36.7% | 36.4% | 36.7% | 35.8% | 35.8% | 35.0% | 35.8% | 34.7% | 33.9% | 32.9% | 33.4% | 32.6% | | Wind | 19.5% | 19.8% | 19.6% | 19.9% | 20.1% | 20.5% | 20.4% | 20.8% | 20.8% | 21.3% | 22.1% | 21.8% | 21.9% | 21.9% | | 3 (Hutch) | 9.0% | 8.7% | 8.9% | 9.2% | 9.3% | 9.2% | 9.6% | 9.9% | 10.2% | 10.2% | 10.3% | 11.1% | 11.6% | 11.5% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 4,690 | 4,771 | 4,910 | 5,030 | 5,131 | 5,184 | 5,235 | 5,361 | 5,401 | 5,390 | 5,390 | 5,314 | 5,043 | 4,929 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 13,310 | 13,962 | 13,735 | 13,916 | 13,903 | 14,182 | 13,653 | 14,130 | 13,889 | 14,153 | 14,367 | 15,119 | 14,964 | 15,595 | | Vodafone | 14,511 | 15,185 | 14,641 | 15,218 | 15,261 | 15,466 | 15,094 | 16,235 | 16,356 | 17,200 | 17,281 | 18,289 | 18,095 | 19,214 | | Wind | 11,299 | 12,153 | 12,129 | 12,858 | 12,529 | 13,279 | 12,937 | 13,707 | 14,141 | 15,492 | 16,094 | 17,159 | 16,889 | 17,461 | | 3 Hutch | 4,457 | 4,700 | 4,606 | 4,773 | 4,719 | 4,892 | 4,793 | 5,132 | 5,218 | 5,533 | 5,673 | 6,082 | 6,109 | 6,538 | | **Total** | **43,577** | **46,000** | **45,111** | **46,765** | **46,413** | **47,818** | **46,477** | **49,204** | **49,604** | **52,378** | **53,415** | **56,650** | **56,058** | **58,808** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 10.0% | 9.0% | 4.1% | 0.5% | 4.5% | 1.6% | (0.6%) | 1.5% | (0.1%) | (0.2%) | 5.2% | 7.0% | 7.7% | 10.2% | | Vodafone | 4.0% | 5.8% | 3.7% | 3.7% | 5.2% | 1.8% | 3.1% | 6.7% | 7.2% | 11.2% | 14.5% | 12.6% | 10.6% | 11.7% | | Wind | 14.2% | 15.2% | 13.9% | 13.8% | 10.9% | 9.3% | 6.7% | 6.6% | 12.9% | 16.7% | 24.4% | 25.2% | 19.4% | 12.7% | | 3 Hutch | 6.9% | 8.1% | 6.1% | 5.1% | 5.9% | 4.1% | 4.1% | 7.5% | 10.6% | 13.1% | 18.4% | 18.5% | 17.1% | 18.2% | | **Total** | **8.6%** | **9.4%** | **6.6%** | **5.4%** | **6.5%** | **4.0%** | **3.0%** | **5.2%** | **6.9%** | **9.5%** | **14.9%** | **15.1%** | **13.0%** | **12.3%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 22.9% | 22.1% | 19.2% | 24.3% | 25.1% | 24.2% | 22.3% | 26.1% | 24.9% | 26.2% | 22.9% | 23.2% | 23.6% | 21.2% | | **Data Revenue (excl messaging) % Service Revenue** | | | | | | | | | | | | | | | | Telecom Italia | 16.3% | 16.8% | 18.1% | 19.1% | 19.9% | 19.5% | 20.6% | 21.4% | 23.1% | 24.0% | 26.2% | 28.4% | 29.8% | 30.1% | | Vodafone | 13.7% | 13.6% | 15.1% | 15.7% | 16.3% | 16.5% | 18.5% | 18.7% | 20.0% | 20.4% | 22.1% | 22.0% | 20.2% | 20.8% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 953 | 1,007 | 1,005 | 898 | 873 | 862 | 814 | 711 | 662 | 638 | 610 | 582 | 537 |  | | **Capex, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 250 | 199 | 199 | 271 | 271 | 194 | 194 | 257 | 257 | 163 | 163 | 307 | 307 |  | |
| Source: Citi Research and Company Reports |

## Italy Fixed Data

|  |
| --- |
| Figure 309. Italy Fixed Market information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Italy** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 1,634 | 1,735 | 1,727 | 1,658 | 1,573 | 1,606 | 1,503 | 1,464 | 1,292 | 1,312 | 1,280 | 1,255 | 1,099 | 1,138 | 1,189 | | Vodafone | 1,779 | 1,824 | 1,819 | 1,748 | 1,700 | 1,668 | 1,573 | 1,492 | 1,390 | 1,344 | 1,286 | 1,203 | 1,109 | 1,090 | 1,138 | | Wind | 934 | 984 | 975 | 955 | 933 | 954 | 899 | 888 | 810 | 824 | 838 | 798 | 725 | 731 | 760 | | 3 (Hutch) | 431 | 431 | 441 | 441 | 431 | 431 | 423 | 423 | 396 | 396 | 389 | 406 | 385 | 385 | 377 | | **Total** | **4,778** | **4,974** | **4,961** | **4,802** | **4,637** | **4,658** | **4,397** | **4,268** | **3,888** | **3,877** | **3,793** | **3,662** | **3,317** | **3,343** | **3,464** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | (11.7%) | (10.4%) | (7.5%) | (7.1%) | (3.7%) | (7.4%) | (13.0%) | (11.7%) | (17.9%) | (18.3%) | (14.8%) | (14.3%) | (14.9%) | (13.2%) | (7.1%) | | Vodafone | (5.0%) | (2.9%) | (4.8%) | (6.3%) | (4.5%) | (8.6%) | (13.5%) | (14.6%) | (18.2%) | (19.4%) | (18.3%) | (19.4%) | (20.3%) | (18.9%) | (11.5%) | | Wind | 3.6% | 0.0% | (1.0%) | (2.3%) | (0.1%) | (3.1%) | (7.8%) | (7.0%) | (13.2%) | (13.6%) | (6.7%) | (10.2%) | (10.5%) | (11.3%) | (9.3%) | | 3 (Hutch) | 2.0% | 2.0% | 2.4% | 2.4% | 0.0% | 0.0% | (4.0%) | (4.0%) | (8.0%) | (8.0%) | (8.0%) | (4.0%) | (3.0%) | (3.0%) | (3.0%) | | **Total** | **(5.3%)** | **(4.7%)** | **(4.4%)** | **(5.0%)** | **(3.0%)** | **(6.3%)** | **(11.4%)** | **(11.1%)** | **(16.1%)** | **(16.8%)** | **(13.7%)** | **(14.2%)** | **(14.7%)** | **(13.8%)** | **(8.7%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 34.2% | 34.9% | 34.8% | 34.5% | 33.9% | 34.5% | 34.2% | 34.3% | 33.2% | 33.8% | 33.7% | 34.3% | 33.1% | 34.0% | 34.3% | | Vodafone | 37.2% | 36.7% | 36.7% | 36.4% | 36.7% | 35.8% | 35.8% | 35.0% | 35.8% | 34.7% | 33.9% | 32.9% | 33.4% | 32.6% | 32.8% | | Wind | 19.5% | 19.8% | 19.6% | 19.9% | 20.1% | 20.5% | 20.4% | 20.8% | 20.8% | 21.3% | 22.1% | 21.8% | 21.9% | 21.9% | 21.9% | | 3 (Hutch) | 9.0% | 8.7% | 8.9% | 9.2% | 9.3% | 9.2% | 9.6% | 9.9% | 10.2% | 10.2% | 10.3% | 11.1% | 11.6% | 11.5% | 10.9% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 4,690 | 4,771 | 4,910 | 5,030 | 5,131 | 5,184 | 5,235 | 5,361 | 5,401 | 5,390 | 5,390 | 5,314 | 5,043 | 4,929 | 4,843 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 13,310 | 13,962 | 13,735 | 13,916 | 13,903 | 14,182 | 13,653 | 14,130 | 13,889 | 14,153 | 14,367 | 15,119 | 14,964 | 15,595 | 15,542 | | Vodafone | 14,511 | 15,185 | 14,641 | 15,218 | 15,261 | 15,466 | 15,094 | 16,235 | 16,356 | 17,200 | 17,281 | 18,289 | 18,095 | 19,214 | 18,944 | | Wind | 11,299 | 12,153 | 12,129 | 12,858 | 12,529 | 13,279 | 12,937 | 13,707 | 14,141 | 15,492 | 16,094 | 17,159 | 16,889 | 17,461 | 17,165 | | 3 Hutch | 4,457 | 4,700 | 4,606 | 4,773 | 4,719 | 4,892 | 4,793 | 5,132 | 5,218 | 5,533 | 5,673 | 6,082 | 6,109 | 6,538 | 6,628 | | **Total** | **43,577** | **46,000** | **45,111** | **46,765** | **46,413** | **47,818** | **46,477** | **49,204** | **49,604** | **52,378** | **53,415** | **56,650** | **56,058** | **58,808** | **58,279** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telecom Italia | 10.0% | 9.0% | 4.1% | 0.5% | 4.5% | 1.6% | (0.6%) | 1.5% | (0.1%) | (0.2%) | 5.2% | 7.0% | 7.7% | 10.2% | 8.2% | | Vodafone | 4.0% | 5.8% | 3.7% | 3.7% | 5.2% | 1.8% | 3.1% | 6.7% | 7.2% | 11.2% | 14.5% | 12.6% | 10.6% | 11.7% | 9.6% | | Wind | 14.2% | 15.2% | 13.9% | 13.8% | 10.9% | 9.3% | 6.7% | 6.6% | 12.9% | 16.7% | 24.4% | 25.2% | 19.4% | 12.7% | 6.7% | | 3 Hutch | 6.9% | 8.1% | 6.1% | 5.1% | 5.9% | 4.1% | 4.1% | 7.5% | 10.6% | 13.1% | 18.4% | 18.5% | 17.1% | 18.2% | 16.8% | | **Total** | **8.6%** | **9.4%** | **6.6%** | **5.4%** | **6.5%** | **4.0%** | **3.0%** | **5.2%** | **6.9%** | **9.5%** | **14.9%** | **15.1%** | **13.0%** | **12.3%** | **9.1%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 22.9% | 22.1% | 19.2% | 24.3% | 25.1% | 24.2% | 22.3% | 26.1% | 24.9% | 26.2% | 22.9% | 23.2% | 23.6% | 21.2% | 19.1% | | **Data Revenue (excl messaging) % Service Revenue** | | | | | | | | | | | | | | | | | Telecom Italia | 16.3% | 16.8% | 18.1% | 19.1% | 19.9% | 19.5% | 20.6% | 21.4% | 23.1% | 24.0% | 26.2% | 28.4% | 29.8% | 30.1% | 32.8% | | Vodafone | 13.7% | 13.6% | 15.1% | 15.7% | 16.3% | 16.5% | 18.5% | 18.7% | 20.0% | 20.4% | 22.1% | 22.0% | 20.2% | 20.8% | 20.5% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 953 | 1,007 | 1,005 | 898 | 873 | 862 | 814 | 711 | 662 | 638 | 610 | 582 | 537 | 622 | 650 | | **Capex, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 250 | 199 | 199 | 271 | 271 | 194 | 194 | 257 | 257 | 163 | 163 | 307 |  |  |  | |
| Source: Citi Research and Company Reports |

Netherlands

### Fixed

* KPN added 9k broadband subs in Q3 vs. -9k in Q2 while cable gaining market share with Ziggo adding 18k subs and UPC adding 9k subs. Retail line losses improved to -34k from -54k in 2Q. KPN continued to add TV subscribers at slower pace with 24k net adds in 3Q14 vs. 30k in 3Q13.
* High speed broadband take-up is now increasing at a fast pace based on data for KPN’s FTTH customers. This excludes wholesale and VDSL.

### Mobile

* Service revenue growth excluding the impact of MTR cuts improved to -4.7% in 3Q14 after falling -7.9% in 2Q14. KPN’s market share further declined in 3Q.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 310. Telephony Net Adds |  | Figure 311. High speed broadband take-up (% of total households) |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 312. Broadband Subscriber Net Adds |  | Figure 313. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 314. Revenue and GDP |  | Figure 315. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 316. Post-Paid Net Adds |  | Figure 317. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 318. Service revenue growth (excl MTR cuts) |  | Figure 319. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Netherlands Mobile Data

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| --- |
| Figure 320. Netherlands Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Netherlands** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 698 | 702 | 691 | 666 | 646 | 656 | 632 | 624 | 614 | 611 | 586 | 551 | 524 | 535 | 528 | | Vodafone | 457 | 478 | 487 | 477 | 467 | 469 | 475 | 461 | 452 | 449 | 445 | 428 | 419 | 431 | 443 | | T-Mobile (DT) | 342 | 357 | 358 | 336 | 341 | 353 | 342 | 330 | 311 | 321 | 324 | 315 | 303 | 301 | 295 | | **Total** | **1,155** | **1,180** | **1,178** | **1,143** | **1,113** | **1,125** | **1,107** | **1,085** | **1,066** | **1,060** | **1,031** | **979** | **943** | **966** | **971** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | (5.7%) | (7.8%) | (6.9%) | (9.4%) | (7.4%) | (6.6%) | (8.5%) | (6.3%) | (5.0%) | (6.9%) | (7.3%) | (11.7%) | (14.7%) | (12.4%) | (9.9%) | | Vodafone | 3.1% | 0.5% | 4.2% | 1.0% | 2.4% | (2.0%) | (2.6%) | (3.5%) | (3.3%) | (4.1%) | (6.3%) | (7.0%) | (7.2%) | (4.1%) | (0.3%) | | T-Mobile (DT) | (6.8%) | (6.8%) | (3.5%) | (6.7%) | (0.3%) | (1.1%) | (4.5%) | (1.8%) | (8.8%) | (9.1%) | (5.3%) | (4.5%) | (2.6%) | (6.2%) | (9.0%) | | **Total** | **(2.4%)** | **(4.6%)** | **(2.6%)** | **(5.3%)** | **(3.6%)** | **(4.7%)** | **(6.1%)** | **(5.1%)** | **(4.3%)** | **(5.7%)** | **(6.9%)** | **(9.7%)** | **(11.5%)** | **(8.9%)** | **(5.7%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 45.9% | 45.0% | 44.3% | 44.3% | 43.8% | 43.7% | 42.8% | 43.1% | 43.3% | 42.7% | 41.6% | 41.0% | 40.5% | 40.6% | 40.0% | | Vodafone | 30.0% | 30.6% | 31.3% | 31.8% | 31.7% | 31.2% | 32.2% | 31.8% | 31.8% | 31.4% | 31.6% | 31.8% | 32.4% | 32.7% | 33.6% | | T-Mobile (DT) | 22.5% | 22.9% | 23.0% | 22.4% | 23.1% | 23.5% | 23.2% | 22.8% | 21.9% | 22.4% | 23.0% | 23.4% | 23.4% | 22.9% | 22.3% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 5,397 | 5,505 | 5,555 | 5,557 | 5,606 | 5,704 | 5,741 | 5,850 | 5,806 | 5,839 | 5,852 | 5,927 | 6,000 | 6,111 | 6,230 | | Vodafone | 3,112 | 3,205 | 3,297 | 3,335 | 3,387 | 3,427 | 3,508 | 3,540 | 3,590 | 3,641 | 3,671 | 3,727 | 3,779 | 3,816 | 3,836 | | T-Mobile (DT) | 2,790 | 2,832 | 2,885 | 2,931 | 2,988 | 3,029 | 3,063 | 3,052 | 3,045 | 3,085 | 3,142 | 3,129 | 3,105 | 3,102 | 2,867 | | Tele2 | 334 | 330 | 325 | 327 | 340 | 372 | 423 | 478 | 535 | 584 | 640 | 694 | 741 | 768 | 791 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 4,166 | 4,282 | 4,037 | 4,254 | 4,423 | 4,500 | 4,220 | 4,516 | 4,420 | 4,525 | 4,266 | 4,538 | 4,581 | 4,754 | 4,644 | | Vodafone | 2,821 | 2,945 | 2,820 | 3,004 | 2,957 | 2,902 | 2,807 | 3,023 | 2,982 | 2,989 | 2,624 | 2,547 | 2,525 | 2,663 | 2,584 | | Deutsche Telekom | 2,011 | 2,062 | 1,948 | 1,993 | 1,963 | 1,987 | 1,839 | 1,877 | 1,808 | 1,832 | 1,760 | 1,817 | 1,766 | 1,810 | 1,755 | | **Total** | **8,997** | **9,289** | **8,805** | **9,252** | **9,343** | **9,389** | **8,866** | **9,416** | **9,210** | **9,346** | **8,650** | **8,903** | **8,872** | **9,227** | **8,983** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | (1.0%) | 0.9% | 1.8% | 3.1% | 6.2% | 5.1% | 4.5% | 6.1% | (0.1%) | 0.6% | 1.1% | 0.5% | 3.6% | 5.1% | 8.9% | | Vodafone | 19.6% | 26.8% | 7.4% | 4.2% | 4.8% | (1.5%) | (0.5%) | 0.6% | 0.8% | 3.0% | (6.5%) | (15.7%) | (15.3%) | (10.9%) | (1.5%) | | Deutsche Telekom | 5.8% | 3.8% | 1.3% | (2.7%) | (2.4%) | (3.6%) | (5.6%) | (5.8%) | (7.9%) | (7.8%) | (4.3%) | (3.2%) | (2.3%) | (1.2%) | (0.3%) | | **Total** | **6.2%** | **8.6%** | **3.4%** | **2.1%** | **3.8%** | **1.1%** | **0.7%** | **1.8%** | **(1.4%)** | **(0.5%)** | **(2.4%)** | **(5.5%)** | **(3.7%)** | **(1.3%)** | **3.9%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T-Mobile (DT) | 15.6% | 15.6% | 15.6% | 15.6% | 14.4% | 13.2% | 14.4% | 19.2% | 19.2% | 15.6% | 14.4% | 15.6% | 16.8% | 14.4% | 14.4% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 162 | 173 | 177 | 174 | 171 | 171 | 173 | 188 | 184 | 169 | 167 | 158 | 155 | 165 | 170 | | T-Mobile (DT) | 82 | 128 | 121 | 127 | 115 | 133 | 143 | 134 | 114 | 108 | 116 | 157 | 148 | 150 | 161 | | **Capex, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 43 | 53 | 53 | 89 | 89 | 59 | 59 | 78 | 78 | 51 | 51 | 86 | 86 | 93 | 93 | | T-Mobile (DT) | 54 | 43 | 32 | 41 | 44 | 22 | 22 | 49 | 963 | 53 | 37 | 53 | 54 | 46 | 44 | |
| Source: Citi Research and Company Reports |

## Netherlands Fixed Data

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| --- |
| Figure 321. Netherlands Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Netherlands** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 2,737 | 2,729 | 2,722 | 2,714 | 2,695 | 2,704 | 2,722 | 2,871 | 2,895 | 2,907 | 2,914 | 2,934 | 2,928 | 2,919 | | ULL (total) | 1,020 | 1,014 | 1,008 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | | Cable | 2,441 | 2,482 | 2,548 | 2,606 | 2,683 | 2,724 | 2,746 | 2,775 | 2,808 | 2,831 | 2,885 | 2,919 | 2,974 | 3,009 | | **Total** | **6,198** | **6,225** | **6,277** | **6,320** | **6,378** | **6,428** | **6,468** | **6,646** | **6,703** | **6,738** | **6,799** | **6,853** | **6,902** | **6,928** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 2,737 | 2,729 | 2,722 | 2,714 | 2,695 | 2,704 | 2,722 | 2,871 | 2,895 | 2,907 | 2,914 | 2,934 | 2,928 | 2,919 | | Tele2 | 507 | 503 | 487 | 475 | 457 | 451 | 438 | 421 | 407 | 397 | 385 | 374 | 368 | 367 | | UPC | 867 | 882 | 909 | 944 | 984 | 1,003 | 1,013 | 1,024 | 1,036 | 1,043 | 1,054 | 1,064 | 1,085 | 1,098 | | Ziggo | 1,574 | 1,600 | 1,639 | 1,662 | 1,699 | 1,721 | 1,733 | 1,751 | 1,772 | 1,788 | 1,831 | 1,855 | 1,889 | 1,911 | | Other | 513 | 511 | 521 | 525 | 543 | 549 | 562 | 579 | 593 | 603 | 615 | 626 | 632 | 633 | | **Total** | **6,198** | **6,225** | **6,277** | **6,320** | **6,378** | **6,428** | **6,468** | **6,646** | **6,703** | **6,738** | **6,799** | **6,853** | **6,902** | **6,928** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 0 | (8) | (7) | (8) | (19) | 9 | 18 | 33 | 24 | 12 | 7 | 20 | (6) | (9) | | Tele2 | (3) | (4) | (16) | (12) | (18) | (6) | (13) | (17) | (14) | (10) | (12) | (11) | (6) | (1) | | UPC | 24 | 15 | 27 | 35 | 40 | 19 | 10 | 11 | 12 | 7 | 11 | 11 | 21 | 13 | | Ziggo | 29 | 26 | 39 | 23 | 37 | 22 | 12 | 18 | 21 | 16 | 43 | 24 | 34 | 22 | | - other | (2) | (2) | 9 | 4 | 18 | 6 | 13 | 17 | 14 | 10 | 12 | 11 | 6 | 1 | | **Total** | **48** | **27** | **53** | **42** | **58** | **50** | **40** | **178** | **57** | **35** | **61** | **55** | **49** | **26** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 4,229 | 4,205 | 4,119 | 4,040 | 3,941 | 3,895 | 3,823 | 3,886 | 3,846 | 3,783 | 3,720 | 3,661 | 3,577 | 3,523 | | Incumbent wholesale (WLR) | 380 | 380 | 370 | 360 | 350 | 350 | 350 | 350 | 350 | 350 | 350 | 350 | 350 | 350 | | ULL (total) | 807 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | | Cable | 1,962 | 2,016 | 2,101 | 2,176 | 2,270 | 2,322 | 2,351 | 2,395 | 2,444 | 2,477 | 2,529 | 2,548 | 2,570 | 2,573 | | **Total** | **7,378** | **7,401** | **7,390** | **7,376** | **7,361** | **7,367** | **7,324** | **7,431** | **7,440** | **7,410** | **7,399** | **7,359** | **7,297** | **7,246** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (130) | (24) | (86) | (79) | (99) | (46) | (72) | 63 | (40) | (63) | (63) | (59) | (84) | (54) | | Cable | 71 | 54 | 85 | 75 | 94 | 52 | 29 | 44 | 50 | 33 | 52 | 19 | 22 | 3 | | **Total** | **(75)** | **23** | **(11)** | **(14)** | **(15)** | **6** | **(43)** | **107** | **10** | **(30)** | **(11)** | **(40)** | **(62)** | **(51)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 1,242 | 1,284 | 1,342 | 1,400 | 1,453 | 1,512 | 1,570 | 1,766 | 1,845 | 1,885 | 1,915 | 1,953 | 1,980 | 2,000 | | UPC | 1,874 | 1,855 | 1,837 | 1,818 | 1,797 | 1,781 | 1,760 | 1,730 | 1,696 | 1,672 | 1,653 | 1,632 | 1,615 | 1,604 | | Ziggo | 2,998 | 2,979 | 2,950 | 2,920 | 2,886 | 2,853 | 2,822 | 2,776 | 2,729 | 2,694 | 2,683 | 2,661 | 2,645 | 2,633 | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | KPN | 69 | 42 | 58 | 58 | 53 | 59 | 58 | 196 | 79 | 40 | 30 | 38 | 27 | 20 | | UPC | (18) | (19) | (18) | (19) | (21) | (16) | (21) | (30) | (34) | (24) | (19) | (21) | (17) | (12) | | Ziggo | (26) | (19) | (29) | (30) | (34) | (33) | (31) | (46) | (47) | (35) | (11) | (22) | (16) | (12) | | **Other** |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | VDSL customers | 50 | 61 | 77 | 102 | 125 | 164 | 198 | 368 | 399 | 429 | 461 | 484 | 501 | 512 | |
| Source: Citi Research and Company Reports |

Norway

### Fixed

* Fixed line trends remained broadly stable. Retail line loss was -12.2% and total market line loss -11.7% yoy. The fixed broadband market remained stable with net losses of 6k in 3Q. The incumbents fixed line revenue deteriorated to -0.2% in 3Q14 from +1.6% decline in 2Q14.

### Mobile

* Service revenue growth excluding the impact of MTR cuts improved to +1.9% from -0.3% in 2Q, moving back to positive territory after reporting negative growth in 2Q.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 322. Telephony Net Adds |  | Figure 323. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 324. Broadband Subscriber Net Adds |  | Figure 325. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 326. Revenue and GDP |  | Figure 327. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 328. Post-Paid Net Adds |  | Figure 329. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 330. Service revenue growth (excl MTR cuts) |  | Figure 331. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  |  |

## Norway Mobile Data

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| --- |
| Figure 332. Norway Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Norway** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, NOK m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 2,977 | 3,059 | 3,101 | 2,992 | 3,020 | 3,177 | 3,256 | 3,137 | 3,012 | 3,118 | 3,140 | 3,045 | 3,097 | 3,270 | 3,431 | | Telia | 1,301 | 1,325 | 1,336 | 1,234 | 1,205 | 1,280 | 1,231 | 1,200 | 1,157 | 1,191 | 1,232 | 1,187 | 1,153 | 1,138 | 1,177 | | Tele2 | 976 | 992 | 1,002 | 991 | 909 | 965 | 979 | 986 | 922 | 939 | 891 | 865 | 856 | 825 | 755 | | **Total** | **5,254** | **5,376** | **5,438** | **5,216** | **5,135** | **5,422** | **5,466** | **5,323** | **5,091** | **5,247** | **5,262** | **5,097** | **5,106** | **5,233** | **5,363** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | (4.5%) | (4.2%) | (2.7%) | (4.4%) | 1.5% | 3.9% | 5.0% | 4.9% | (0.3%) | (1.9%) | (3.6%) | (3.0%) | 2.8% | 4.9% | 9.3% | | Telia | (8.0%) | (11.0%) | (10.7%) | (14.6%) | (7.4%) | (3.4%) | (7.8%) | (2.8%) | (4.0%) | (7.0%) | 0.0% | (1.1%) | (0.4%) | (4.4%) | (4.4%) | | Tele2 | (5.7%) | (6.8%) | (4.2%) | (9.0%) | (6.8%) | (2.8%) | (2.3%) | (0.5%) | 1.4% | (2.7%) | (9.0%) | (12.3%) | (7.1%) | (12.1%) | (15.2%) | | **Total** | **(5.6%)** | **(6.4%)** | **(5.1%)** | **(7.9%)** | **(2.3%)** | **0.9%** | **0.5%** | **2.0%** | **(0.8%)** | **(3.2%)** | **(3.7%)** | **(4.3%)** | **0.3%** | **(0.3%)** | **1.9%** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 56.7% | 56.9% | 57.0% | 57.4% | 58.8% | 58.6% | 59.6% | 58.9% | 59.2% | 59.4% | 59.7% | 59.7% | 60.7% | 62.5% | 64.0% | | Telia | 24.8% | 24.6% | 24.6% | 23.7% | 23.5% | 23.6% | 22.5% | 22.5% | 22.7% | 22.7% | 23.4% | 23.3% | 22.6% | 21.7% | 21.9% | | Tele2 | 18.6% | 18.5% | 18.4% | 19.0% | 17.7% | 17.8% | 17.9% | 18.5% | 18.1% | 17.9% | 16.9% | 17.0% | 16.8% | 15.8% | 14.1% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 2,349 | 2,374 | 2,397 | 2,456 | 2,474 | 2,499 | 2,513 | 2,524 | 2,529 | 2,539 | 2,562 | 2,589 | 2,602 | 2,595 | 2,614 | | Telia | 1,185 | 1,183 | 1,176 | 1,185 | 1,191 | 1,192 | 1,200 | 1,205 | 1,217 | 1,223 | 1,222 | 1,214 | 1,201 | 1,209 | 1,216 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 2,062 | 2,080 | 2,060 | 2,144 | 2,220 | 2,240 | 2,164 | 2,259 | 2,360 | 2,562 | 2,431 | 2,541 | 2,499 | 2,572 | 2,523 | | Telia | 1,397 | 1,405 | 1,391 | 1,398 | 1,439 | 1,418 | 1,355 | 1,419 | 1,348 | 1,437 | 1,368 | 1,406 | 1,365 | 1,392 | 1,341 | | Tele2 | 944 | 959 | 951 | 994 | 1,057 | 1,072 | 1,046 | 1,109 | 1,109 | 1,185 | 1,122 | 1,164 | 1,147 | 1,178 | 1,139 | | **Total** | **4,403** | **4,445** | **4,402** | **4,535** | **4,716** | **4,730** | **4,564** | **4,787** | **4,817** | **5,185** | **4,921** | **5,110** | **5,012** | **5,142** | **5,003** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 2.4% | (0.9%) | 2.3% | 1.3% | 7.7% | 7.7% | 5.0% | 5.4% | 6.3% | 14.4% | 12.4% | 12.5% | 5.9% | 0.4% | 3.8% | | Telia | 1.6% | (0.6%) | 2.3% | 0.6% | 3.0% | 0.9% | (2.6%) | 1.5% | (6.3%) | 1.4% | 1.0% | (0.9%) | 1.3% | (3.2%) | (2.0%) | | Tele2 | 4.0% | 2.0% | 5.4% | 5.8% | 12.0% | 11.8% | 9.9% | 11.7% | 4.9% | 10.5% | 7.3% | 4.9% | 3.4% | (0.6%) | 1.5% | | **Total** | **2.5%** | **(0.2%)** | **2.9%** | **2.0%** | **7.1%** | **6.4%** | **3.7%** | **5.6%** | **2.1%** | **9.6%** | **7.8%** | **6.7%** | **4.0%** | **(0.8%)** | **1.7%** | | **EBITDA, NOK m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 603 | 639 | 671 | 563 | 491 | 562 | 539 | 479 | 439 | 481 | 543 | 476 | 455 |  |  | | Tele2 | 8 | 5 | (31) | (57) | 13 | 69 | 88 | (24) | 24 | 31 | 45 | (19) | 9 |  |  | |
| Source: Citi Research and Company Reports |

## Norway Fixed Data

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| --- |
| Figure 333. Norway Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Norway** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 855 | 852 | 855 | 860 | 861 | 855 | 856 | 870 | 867 | 867 | 862 | 864 | 865 | 862 | 860 | | Incumbent wholesale | 78 | 78 | 78 | 78 | 78 | 79 | 78 | 77 | 75 | 73 | 72 | 71 | 70 | 69 | 68 | | ULL (total) | 299 | 295 | 291 | 289 | 285 | 284 | 281 | 276 | 273 | 271 | 268 | 263 | 256 | 251 | 248 | | Cable | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | 172 | | **Total** | **1,404** | **1,397** | **1,396** | **1,399** | **1,396** | **1,389** | **1,386** | **1,395** | **1,388** | **1,382** | **1,374** | **1,370** | **1,363** | **1,354** | **1,348** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor (DSL+cable) | 855 | 852 | 855 | 860 | 861 | 855 | 856 | 870 | 867 | 867 | 862 | 864 | 865 | 862 | 860 | | Telia | 192 | 189 | 189 | 188 | 187 | 186 | 186 | 184 | 184 | 184 | 184 | 184 | 184 | 184 | 184 | | - other | 357 | 356 | 352 | 351 | 348 | 348 | 344 | 341 | 336 | 332 | 328 | 322 | 314 | 308 | 304 | | **Total** | **1,404** | **1,397** | **1,396** | **1,399** | **1,396** | **1,389** | **1,386** | **1,395** | **1,388** | **1,382** | **1,374** | **1,370** | **1,363** | **1,354** | **1,348** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor (DSL+cable) | 3 | (3) | 3 | 5 | 1 | (6) | 1 | 14 | (3) | (1) | (5) | 2 | 1 | (3) | (2) | | Telia | (3) | (3) | 0 | (1) | (1) | (1) | 0 | (2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | - other | (5) | (1) | (4) | (0) | (3) | 0 | (4) | (3) | (5) | (5) | (4) | (6) | (8) | (6) | (4) | | **Total** | **(5)** | **(7)** | **(1)** | **4** | **(3)** | **(7)** | **(3)** | **9** | **(7)** | **(5)** | **(9)** | **(4)** | **(7)** | **(9)** | **(6)** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,082 | 1,058 | 1,036 | 1,016 | 992 | 971 | 944 | 917 | 885 | 857 | 827 | 800 | 772 | 751 | 726 | | Incumbent wholesale (WLR) | 174 | 171 | 167 | 161 | 157 | 153 | 147 | 140 | 134 | 130 | 124 | 118 | 112 | 107 | 102 | | ULL (total) | 299 | 295 | 291 | 289 | 285 | 284 | 281 | 276 | 273 | 271 | 268 | 263 | 256 | 251 | 248 | | **Total** | **1,555** | **1,524** | **1,494** | **1,466** | **1,434** | **1,408** | **1,372** | **1,333** | **1,293** | **1,257** | **1,219** | **1,181** | **1,141** | **1,109** | **1,076** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (25) | (24) | (22) | (20) | (24) | (21) | (27) | (28) | (31) | (29) | (30) | (27) | (28) | (21) | (25) | | Incumbent wholesale (WLR) | (5) | (3) | (4) | (6) | (4) | (4) | (7) | (7) | (6) | (4) | (6) | (6) | (6) | (5) | (5) | | ULL (total) | (7) | (4) | (4) | (2) | (4) | (1) | (3) | (4) | (3) | (3) | (3) | (5) | (7) | (5) | (3) | | **Total** | **(37)** | **(31)** | **(30)** | **(27)** | **(32)** | **(26)** | **(36)** | **(39)** | **(40)** | **(35)** | **(39)** | **(38)** | **(40)** | **(32)** | **(33)** | |
| Source: Citi Research and Company Reports |

Portugal

### Fixed

* Retail line loss improved to -1.6% yoy vs. -2.1% in 2Q14. Cable also lost subscribers in the quarter, leading to -4.1% total market lines yoy. PT continues to gain share in broadband while cable net adds were strong at 23k.

### Mobile

* Vodafone’s service revenue growth slightly deteriorated to -4.7% in 3Q14 vs -2.4% in 1Q14. PT no longer directly reports mobile service revenue; but Personal’s (consumer mobile) customer driven revenues declined to -2.0%, vs. -0.5% decline in 2Q14.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 334. Telephony Net Adds |  | Figure 335. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 336. Broadband Subscriber Net Adds |  | Figure 337. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 338. Revenue and GDP |  | Figure 339. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 340. Post-Paid Net Adds |  | Figure 341. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 342. Service revenue growth (excl MTR cuts) |  | Figure 343. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Portugal Mobile Data

|  |
| --- |
| Figure 344. Portugal Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Portugal** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Portugal Telecom | 281 | 284 | 294 | 271 | 254 | 257 | 255 | 239 | 225 | 232 | 238 | 229 | 218 | 227 | 230 | | Vodafone | 281 | 288 | 293 | 272 | 272 | 265 | 271 | 249 | 245 | 235 | 245 | 236 | 222 | 227 | 233 | | Sonae | 133 | 136 | 142 | 131 | 127 | 126 | 130 | 118 | 114 | 115 | 102 | 89 | 90 | 92 | 96 | | **Total** | **696** | **708** | **729** | **674** | **653** | **648** | **656** | **606** | **583** | **581** | **585** | **553** | **530** | **546** | **559** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Portugal Telecom | (12.3%) | (10.7%) | (8.6%) | (10.8%) | (9.9%) | (9.4%) | (13.3%) | (11.7%) | (11.3%) | (10.0%) | (6.7%) | (4.5%) | (3.3%) | (2.1%) | (3.3%) | | Vodafone | (9.0%) | (5.2%) | (4.7%) | (6.5%) | (3.2%) | (7.9%) | (7.3%) | (8.5%) | (10.0%) | (11.3%) | (9.9%) | (5.3%) | (9.2%) | (3.5%) | (4.7%) | | Sonae | (2.9%) | (1.9%) | (1.4%) | (4.6%) | (4.8%) | (7.6%) | (8.5%) | (9.9%) | (10.6%) | (8.8%) | (21.3%) | (24.7%) | (20.7%) | (19.6%) | (6.2%) | | **Total** | **(9.3%)** | **(6.9%)** | **(5.7%)** | **(7.9%)** | **(6.2%)** | **(8.4%)** | **(9.9%)** | **(10.0%)** | **(10.6%)** | **(10.3%)** | **(10.9%)** | **(8.8%)** | **(9.1%)** | **(6.1%)** | **(4.4%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Portugal Telecom | 40.4% | 40.1% | 40.4% | 40.2% | 38.9% | 39.7% | 38.9% | 39.5% | 38.6% | 39.8% | 40.7% | 41.3% | 41.1% | 41.5% | 41.2% | | Vodafone | 40.4% | 40.6% | 40.2% | 40.3% | 41.7% | 40.9% | 41.4% | 41.0% | 41.9% | 40.4% | 41.8% | 42.6% | 41.9% | 41.6% | 41.7% | | Sonae | 19.2% | 19.2% | 19.4% | 19.5% | 19.5% | 19.4% | 19.7% | 19.5% | 19.5% | 19.7% | 17.4% | 16.1% | 17.0% | 16.9% | 17.1% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Portugal Telecom | 2,304 | 2,318 | 2,341 | 2,378 | 2,449 | 2,456 | 2,463 | 2,469 | 2,565 | 2,673 | 2,782 | 2,925 | 3,075 | 3,203 | 3,536 | | Vodafone | 1,157 | 1,150 | 1,148 | 1,150 | 1,128 | 1,115 | 1,105 | 1,092 | 1,078 | 1,073 | 1,086 | 1,112 | 1,246 | 1,318 | 1,393 | | Sonae | 923 | 934 | 930 | 934 | 938 | 927 | 925 | 916 | 905 | 919 | 956 | 992 | 1,127 | 1,270 | 1,415 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Portugal Telecom | 2,585 | 2,635 | 2,752 | 2,797 | 2,795 | 2,860 | 2,977 | 2,850 | 2,893 | 3,074 | 3,246 | 3,329 | 3,298 | 3,262 | 3,269 | | Vodafone | 3,002 | 2,969 | 2,912 | 2,956 | 2,795 | 2,822 | 2,809 | 2,793 | 2,770 | 2,822 | 2,960 | 3,159 | 3,052 | 2,999 | 3,284 | | Sonae | 1,265 | 1,277 | 1,272 | 1,283 | 1,238 | 1,237 | 1,221 | 1,241 | 1,192 | 1,192 | 1,194 | 1,202 | 1,216 | 1,245 | 1,291 | | **Total** | **6,852** | **6,881** | **6,936** | **7,036** | **6,828** | **6,919** | **7,007** | **6,884** | **6,855** | **7,088** | **7,400** | **7,689** | **7,566** | **7,506** | **7,844** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Portugal Telecom | 3.3% | 0.3% | 1.2% | 3.3% | 8.1% | 8.5% | 8.2% | 1.9% | 3.5% | 7.5% | 9.0% | 16.8% | 14.0% | 6.1% | 0.7% | | Vodafone | 26.8% | 15.4% | (0.6%) | 3.4% | (6.9%) | (5.0%) | (3.5%) | (5.5%) | (0.9%) | 0.0% | 5.4% | 13.1% | 10.2% | 6.3% | 10.9% | | Sonae | (1.8%) | (1.9%) | (1.9%) | (3.7%) | (2.1%) | (3.2%) | (4.0%) | (3.3%) | (3.8%) | (3.7%) | (2.2%) | (3.2%) | 2.0% | 4.4% | 8.1% | | **Total** | **11.2%** | **5.9%** | **(0.2%)** | **2.0%** | **(0.3%)** | **0.6%** | **1.0%** | **(2.2%)** | **0.4%** | **2.4%** | **5.6%** | **11.7%** | **10.4%** | **5.9%** | **6.0%** | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 128 | 141 | 143 | 116 | 116 | 118 | 121 | 106 | 104 | 101 | 105 | 82 | 77 |  |  | | Sonae | 48 | 53 | 54 | 45 | 55 | 60 | 62 | 51 | 56 | 60 |  |  |  |  |  | |
| Source: Citi Research and Company Reports |

## Portugal Fixed Data

|  |
| --- |
| Figure 345. Portugal Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Portugal** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,019 | 1,040 | 1,072 | 1,105 | 1,141 | 1,169 | 1,200 | 1,225 | 1,251 | 1,268 | 1,280 | 1,294 | 1,316 | 1,334 | 1,355 | | Incumbent wholesale | 51 | 51 | 51 | 50 | 35 | 34 | 34 | 34 | 34 | 34 | 34 | 34 | 34 | 34 | 34 | | ULL (total) | 231 | 220 | 209 | 196 | 181 | 168 | 156 | 144 | 132 | 120 | 108 | 96 | 84 | 72 | 60 | | Cable | 970 | 982 | 994 | 1,010 | 1,022 | 1,026 | 1,043 | 1,069 | 1,079 | 1,095 | 1,103 | 1,111 | 1,118 | 1,128 | 1,152 | | **Total** | **2,271** | **2,293** | **2,327** | **2,362** | **2,378** | **2,397** | **2,432** | **2,471** | **2,496** | **2,516** | **2,525** | **2,534** | **2,551** | **2,567** | **2,601** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | PT | 1,019 | 1,040 | 1,072 | 1,105 | 1,141 | 1,169 | 1,200 | 1,225 | 1,251 | 1,268 | 1,280 | 1,294 | 1,316 | 1,334 | 1,355 | | Sonaecom | 95 | 87 | 81 | 75 | 71 | 67 | 63 | 59 | 55 | 51 | 47 | 43 | 39 | 35 | 31 | | Zon | 803 | 813 | 823 | 837 | 846 | 849 | 864 | 888 | 896 | 910 | 916 | 922 | 927 | 935 | 957 | | Cabovisao | 167 | 169 | 171 | 173 | 175 | 177 | 179 | 181 | 183 | 185 | 187 | 189 | 191 | 193 | 195 | | - other | 187 | 184 | 180 | 172 | 145 | 134 | 126 | 118 | 110 | 102 | 94 | 86 | 78 | 70 | 62 | | **Total** | **2,271** | **2,293** | **2,327** | **2,362** | **2,378** | **2,397** | **2,432** | **2,471** | **2,496** | **2,516** | **2,525** | **2,534** | **2,551** | **2,567** | **2,601** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | PT | 18 | 21 | 32 | 33 | 35 | 28 | 31 | 25 | 27 | 17 | 12 | 14 | 22 | 18 | 21 | | Sonaecom | (10) | (8) | (6) | (6) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (4) | | Zon | 15 | 10 | 10 | 14 | 9 | 3 | 15 | 24 | 8 | 14 | 6 | 6 | 5 | 8 | 23 | | Cabovisao | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | | - other | (2) | (3) | (4) | (8) | (27) | (11) | (8) | (8) | (8) | (8) | (8) | (8) | (8) | (8) | (8) | | **Total** | **22** | **22** | **34** | **36** | **16** | **18** | **36** | **39** | **25** | **21** | **8** | **10** | **17** | **16** | **34** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 2,683 | 2,672 | 2,662 | 2,648 | 2,629 | 2,615 | 2,610 | 2,604 | 2,592 | 2,579 | 2,564 | 2,549 | 2,534 | 2,526 | 2,522 | | Incumbent wholesale (WLR) | 62 | 60 | 58 | 56 | 51 | 48 | 46 | 44 | 42 | 40 | 38 | 36 | 34 | 32 | 30 | | ULL (total) | 231 | 220 | 209 | 196 | 181 | 168 | 156 | 144 | 132 | 120 | 108 | 96 | 84 | 72 | 60 | | Cable | 1,389 | 1,408 | 1,425 | 1,465 | 1,503 | 1,528 | 1,542 | 1,558 | 1,543 | 1,533 | 1,539 | 1,515 | 1,491 | 1,473 | 1,465 | | **Total** | **4,364** | **4,361** | **4,355** | **4,365** | **4,364** | **4,359** | **4,353** | **4,350** | **4,308** | **4,272** | **4,249** | **4,196** | **4,143** | **4,102** | **4,076** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (12) | (11) | (10) | (15) | (19) | (14) | (5) | (5) | (13) | (13) | (15) | (15) | (16) | (8) | (4) | | Incumbent wholesale (WLR) | (0) | (1) | (2) | (3) | (5) | (3) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | | ULL (full) | (12) | (11) | (11) | (13) | (15) | (13) | (12) | (12) | (12) | (12) | (12) | (12) | (12) | (12) | (12) | | Cable | 30 | 19 | 17 | 40 | 38 | 26 | 13 | 16 | (15) | (9) | 6 | (24) | (24) | (19) | (8) | | **Total** | **6** | **(4)** | **(6)** | **10** | **(1)** | **(4)** | **(6)** | **(3)** | **(42)** | **(36)** | **(23)** | **(53)** | **(53)** | **(41)** | **(26)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | PT | 876 | 919 | 974 | 1,042 | 1,111 | 1,157 | 1,198 | 1,223 | 1,248 | 1,270 | 1,294 | 1,315 | 1,334 | 1,362 | 1,387 | | Zon | 1,578 | 1,576 | 1,578 | 1,591 | 1,610 | 1,610 | 1,598 | 1,594 | 1,583 | 1,567 | 1,546 | 1,518 | 1,493 | 1,474 | 1,470 | | Vodafone |  |  |  |  |  | 102 | 102 | 102 | 103 | 113 | 133 | 172 | 212 | 245 | 276 | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | PT | 46 | 44 | 55 | 68 | 69 | 46 | 41 | 25 | 25 | 22 | 23 | 21 | 20 | 28 | 25 | | Zon | (17) | (2) | 1 | 13 | 20 | (0) | (12) | (4) | (11) | (16) | (21) | (28) | (25) | (19) | (4) | | Vodafone |  |  |  |  |  | 0 | 0 | 0 | 1 | 10 | 20 | 39 | 40 | 33 | 31 | |
| Source: Citi Research and Company Reports |

Spain

### Fixed

* Retail line loss improved to -169k vs. -206k in Q1. Fixed broadband market net adds slowed to 85k from 188k in Q1.

### Mobile

* Mobile service revenue ex MTRs improved to -13.2% vs. -14.7% in 2Q14. Minutes growth was strong at 4.9% (vs. -0.3% in 2Q14) mainly attributable to Orange and Vodafone.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 346. Telephony Net Adds |  | Figure 347. High speed broadband take-up (% of total households) |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 348. Broadband Subscriber Net Adds |  | Figure 349. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 350. Revenue and GDP |  | Figure 351. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 352. Post-Paid Net Adds |  | Figure 353. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 354. Service revenue growth (excl MTR cuts) |  | Figure 355. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Spain Mobile Data

|  |
| --- |
| Figure 356. Spain Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Spain** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | 1,648 | 1,681 | 1,715 | 1,504 | 1,354 | 1,369 | 1,419 | 1,300 | 1,171 | 1,202 | 1,161 | 1,046 | 1,014 | 968 | 974 | | Vodafone | 1,223 | 1,196 | 1,232 | 1,137 | 1,082 | 1,052 | 1,067 | 1,004 | 947 | 929 | 869 | 840 | 828 | 766 | 765 | | Orange (FT) | 766 | 786 | 832 | 782 | 759 | 772 | 795 | 766 | 741 | 744 | 706 | 651 | 621 | 606 | 623 | | Telia | 136 | 153 | 168 | 166 | 163 | 166 | 178 | 172 | 168 | 173 | 165 | 160 | 158 | 154 | 157 | | **Total** | **3,774** | **3,816** | **3,948** | **3,589** | **3,358** | **3,359** | **3,458** | **3,243** | **3,027** | **3,048** | **2,901** | **2,697** | **2,621** | **2,494** | **2,519** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | (7.7%) | (8.1%) | (8.8%) | (12.8%) | (17.8%) | (18.6%) | (17.3%) | (13.6%) | (13.5%) | (12.2%) | (18.2%) | (19.5%) | (13.4%) | (19.5%) | (16.1%) | | Vodafone | (7.7%) | (9.9%) | (10.3%) | (10.6%) | (11.5%) | (12.1%) | (13.4%) | (11.7%) | (12.5%) | (11.7%) | (18.5%) | (16.4%) | (12.5%) | (17.6%) | (12.0%) | | Orange (FT) | 3.1% | 2.8% | 3.5% | 0.4% | (1.0%) | (1.8%) | (4.5%) | (1.9%) | (2.3%) | (3.6%) | (11.2%) | (15.1%) | (16.2%) | (18.6%) | (11.8%) | | **Total** | **(4.1%)** | **(5.5%)** | **(5.7%)** | **(8.2%)** | **(11.0%)** | **(12.0%)** | **(12.4%)** | **(9.6%)** | **(9.9%)** | **(9.2%)** | **(16.1%)** | **(16.8%)** | **(13.4%)** | **(18.2%)** | **(13.2%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | 43.7% | 44.0% | 43.4% | 41.9% | 40.3% | 40.8% | 41.0% | 40.1% | 38.7% | 39.4% | 40.0% | 38.8% | 38.7% | 38.8% | 38.7% | | Vodafone | 32.4% | 31.4% | 31.2% | 31.7% | 32.2% | 31.3% | 30.8% | 31.0% | 31.3% | 30.5% | 30.0% | 31.1% | 31.6% | 30.7% | 30.4% | | Orange (FT) | 20.3% | 20.6% | 21.1% | 21.8% | 22.6% | 23.0% | 23.0% | 23.6% | 24.5% | 24.4% | 24.3% | 24.1% | 23.7% | 24.3% | 24.7% | | Telia | 3.6% | 4.0% | 4.2% | 4.6% | 4.9% | 4.9% | 5.1% | 5.3% | 5.6% | 5.7% | 5.7% | 5.9% | 6.0% | 6.2% | 6.2% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | 16,543 | 16,661 | 16,659 | 16,815 | 15,846 | 15,782 | 15,601 | 15,413 | 15,153 | 15,013 | 14,868 | 14,739 | 14,068 | 14,096 | 14,191 | | Vodafone | 10,698 | 10,757 | 10,839 | 10,804 | 10,713 | 10,479 | 10,256 | 9,974 | 9,766 | 9,613 | 9,559 | 9,521 | 9,485 | 9,408 | 10,967 | | Orange (FT) | 7,250 | 7,323 | 7,445 | 7,616 | 7,745 | 7,845 | 7,949 | 8,100 | 8,493 | 8,614 | 8,793 | 8,945 | 9,040 | 9,145 | 9,337 | | Telia | 1,303 | 1,445 | 1,530 | 1,607 | 1,659 | 1,740 | 1,934 | 2,001 | 2,047 | 2,063 | 2,097 | 2,137 | 2,174 | 2,175 | 2,175 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | 9,936 | 10,229 | 10,068 | 9,677 | 9,346 | 9,236 | 9,044 | 8,730 | 8,230 | 8,774 | 8,647 | 8,768 | 8,588 | 8,988 | 8,992 | | Vodafone | 9,058 | 9,355 | 9,294 | 9,089 | 8,858 | 8,723 | 9,107 | 9,244 | 8,838 | 9,294 | 8,224 | 8,201 | 8,118 | 8,544 | 8,562 | | France Telecom | 5,714 | 5,718 | 5,740 | 5,679 | 5,783 | 5,663 | 5,766 | 5,934 | 5,921 | 6,221 | 6,367 | 6,463 | 6,591 | 6,674 | 6,824 | | Telia | 1,557 | 1,718 | 1,830 | 1,895 | 1,986 | 2,070 | 2,257 | 2,482 | 2,533 | 2,757 | 2,692 | 2,769 | 2,879 | 3,083 | 3,054 | | **Total** | **26,264** | **27,020** | **26,932** | **26,340** | **25,973** | **25,691** | **26,175** | **26,389** | **25,522** | **27,046** | **25,930** | **26,201** | **26,176** | **27,289** | **27,431** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | (1.1%) | (3.2%) | (5.7%) | (7.1%) | (5.9%) | (9.7%) | (10.2%) | (9.8%) | (11.9%) | (5.0%) | (4.4%) | 0.4% | 4.3% | 2.4% | 4.0% | | Vodafone | 3.3% | 2.5% | 0.4% | (0.4%) | (2.2%) | (6.8%) | (2.0%) | 1.7% | (0.2%) | 6.5% | (9.7%) | (11.3%) | (8.1%) | (8.1%) | 4.1% | | France Telecom | 8.3% | 10.0% | 9.5% | 3.1% | 1.2% | (1.0%) | 0.5% | 4.5% | 2.4% | 9.9% | 10.4% | 8.9% | 11.3% | 7.3% | 7.2% | | Telia | 62.6% | 52.5% | 38.5% | 30.1% | 27.6% | 20.5% | 23.4% | 31.0% | 27.5% | 33.2% | 19.3% | 11.6% | 13.7% | 11.8% | 13.4% | | **Total** | **4.8%** | **3.9%** | **1.6%** | **(0.6%)** | **(1.1%)** | **(4.9%)** | **(2.8%)** | **0.2%** | **(1.7%)** | **5.3%** | **(0.9%)** | **(0.7%)** | **2.6%** | **0.9%** | **5.8%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | 21.6% | 20.4% | 20.4% | 20.4% | 24.0% | 16.8% | 16.8% | 21.6% | 25.2% | 21.6% | 21.6% | 22.8% | 26.4% | 20.4% | 18.0% | | Vodafone | 25.4% | 19.0% | 20.9% | 22.6% | 24.2% | 20.6% | 22.4% | 25.5% | 27.0% | 23.3% | 20.5% | 20.3% | 21.9% | 19.6% | 17.4% | | Orange (FT) | 20.3% | 20.2% | 20.4% | 20.3% | 19.7% | 19.0% | 18.6% | 18.6% | 20.0% | 21.2% | 21.4% | 21.4% | 20.7% | 19.7% | 20.2% | | **Data Revenue (excl messaging) % Service Revenue** | | | | | | | | | | | | | | | | | Telefónica | 17.7% | 18.3% | 20.0% | 22.6% | 24.3% | 25.5% | 25.8% | 28.4% | 32.0% | 33.9% | 36.6% | 38.9% | 40.6% | 41.1% | 41.9% | | Vodafone | 13.6% | 13.8% | 15.2% | 16.9% | 18.9% | 19.6% | 20.6% | 22.4% | 23.6% | 24.6% | 28.1% | 29.5% | 31.3% | 34.5% | 32.7% | | Orange (FT) | 12.1% | 12.8% | 13.6% | 15.9% | 17.7% | 18.9% | 19.9% | 22.0% | 22.0% | 23.0% | 23.0% | 24.0% | 25.0% | 26.0% | 27.0% | | **EBITDA, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 397 | 381 | 393 | 310 | 295 | 331 | 336 | 253 | 238 | 256 | 239 | 220 | 217 | 191 | 191 | | **Capex, €m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 173 | 83 | 83 | 167 | 167 | 95 | 95 | 136 | 136 | 96 | 96 | 208 | 208 |  |  | |
| Source: Citi Research and Company Reports |

## Spain Fixed Data

|  |
| --- |
| Figure 357. Spain Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Spain** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 5,749 | 5,669 | 5,607 | 5,609 | 5,600 | 5,613 | 5,580 | 5,709 | 5,762 | 5,796 | 5,812 | 5,847 | 5,860 | 5,862 | 5,873 | | Incumbent wholesale | 615 | 652 | 686 | 710 | 704 | 690 | 673 | 652 | 658 | 662 | 666 | 677 | 698 | 703 | 711 | | ULL (total) | 2,579 | 2,654 | 2,752 | 2,881 | 2,984 | 3,061 | 3,158 | 3,262 | 3,358 | 3,475 | 3,619 | 3,787 | 3,911 | 3,979 | 4,034 | | Cable | 1,406 | 1,414 | 1,420 | 1,429 | 1,428 | 1,422 | 1,418 | 1,583 | 1,574 | 1,543 | 1,522 | 1,531 | 1,561 | 1,571 | 1,581 | | **Total** | **10,349** | **10,390** | **10,466** | **10,628** | **10,716** | **10,786** | **10,828** | **11,207** | **11,351** | **11,476** | **11,620** | **11,842** | **12,030** | **12,115** | **12,198** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | 5,749 | 5,669 | 5,607 | 5,609 | 5,600 | 5,613 | 5,580 | 5,709 | 5,762 | 5,796 | 5,812 | 5,847 | 5,860 | 5,862 | 5,873 | | Ono | 1,406 | 1,414 | 1,420 | 1,429 | 1,428 | 1,422 | 1,418 | 1,583 | 1,574 | 1,543 | 1,522 | 1,531 | 1,561 | 1,571 | 1,581 | | Orange | 1,150 | 1,187 | 1,225 | 1,265 | 1,293 | 1,323 | 1,359 | 1,396 | 1,436 | 1,512 | 1,594 | 1,693 | 1,776 | 1,830 | 1,894 | | Jazztel | 910 | 965 | 1,021 | 1,103 | 1,183 | 1,229 | 1,272 | 1,318 | 1,331 | 1,359 | 1,385 | 1,426 | 1,444 | 1,463 | 1,485 | | Vodafone (formally Tele2) | 779 | 709 | 730 | 745 | 835 | 809 | 789 | 772 | 810 | 853 | 896 | 953 | 1,026 | 1,074 | 1,125 | | Other | 354 | 446 | 463 | 478 | 377 | 390 | 411 | 429 | 439 | 414 | 410 | 392 | 362 | 314 | 240 | | **Total** | **10,349** | **10,390** | **10,466** | **10,628** | **10,716** | **10,786** | **10,828** | **11,207** | **11,351** | **11,476** | **11,620** | **11,842** | **12,030** | **12,115** | **12,198** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telefónica | 27 | (80) | (62) | 1 | (9) | 14 | (33) | 130 | 52 | 34 | 17 | 35 | 14 | 2 | 11 | | Ono | 26 | 8 | 6 | 8 | (1) | (6) | (4) | 165 | (9) | (31) | (21) | 9 | 30 | 10 | 10 | | Orange | 35 | 37 | 38 | 40 | 28 | 30 | 36 | 37 | 40 | 76 | 82 | 99 | 83 | 54 | 64 | | Jazztel | 63 | 54 | 56 | 82 | 81 | 45 | 43 | 46 | 13 | 29 | 26 | 41 | 18 | 19 | 22 | | Vodafone (formally Tele2) | 37 | (70) | 21 | 15 | 90 | (26) | (20) | (17) | 38 | 43 | 43 | 57 | 73 | 48 | 51 | | **Total** | **209** | **41** | **77** | **162** | **87** | **70** | **42** | **378** | **145** | **125** | **143** | **222** | **188** | **85** | **84** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 13,006 | 12,729 | 12,495 | 12,305 | 12,104 | 11,948 | 11,771 | 11,723 | 11,587 | 11,420 | 11,261 | 11,090 | 10,884 | 10,715 | 10,595 | | Incumbent wholesale (WLR) | 342 | 379 | 415 | 441 | 462 | 471 | 480 | 481 | 486 | 489 | 507 | 526 | 542 | 556 | 564 | | ULL (total) | 2,339 | 2,430 | 2,537 | 2,676 | 2,789 | 2,868 | 2,968 | 3,079 | 3,189 | 3,318 | 3,472 | 3,657 | 3,795 | 3,874 | 3,938 | | Cable | 1,897 | 1,901 | 1,901 | 1,899 | 1,887 | 1,873 | 1,864 | 1,852 | 1,835 | 1,801 | 1,780 | 1,828 | 1,859 | 1,868 | 1,877 | | **Total** | **17,584** | **17,440** | **17,348** | **17,321** | **17,242** | **17,160** | **17,083** | **17,135** | **17,097** | **17,028** | **17,020** | **17,100** | **17,079** | **17,013** | **16,974** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (274) | (277) | (234) | (189) | (202) | (156) | (177) | (48) | (136) | (167) | (159) | (172) | (206) | (169) | (120) | | Incumbent wholesale (WLR) | 47 | 38 | 36 | 25 | 21 | 9 | 9 | 2 | 5 | 3 | 18 | 19 | 16 | 14 | 8 | | ULL (full) | 126 | 92 | 107 | 139 | 113 | 79 | 100 | 110 | 110 | 129 | 154 | 185 | 138 | 79 | 64 | | Cable | 21 | 4 | (1) | (2) | (12) | (14) | (9) | (12) | (17) | (34) | (21) | 48 | 31 | 9 | 9 | | **Total** | **(80)** | **(144)** | **(92)** | **(27)** | **(79)** | **(82)** | **(77)** | **52** | **(38)** | **(69)** | **(8)** | **81** | **(21)** | **(66)** | **(39)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF | 786 | 785 | 804 | 833 | 813 | 792 | 760 | 711 | 660 | 633 | 609 | 673 | 730 | 1,210 | 1,579 | | ONO | 958 | 952 | 939 | 923 | 906 | 897 | 882 | 873 | 854 | 830 | 807 | 790 | 782 | 778 | 775 | | Orange | 69 | 68 | 67 | 68 | 68 | 68 | 69 | 71 | 68 | 65 | 62 | 76 | 86 | 91 | 89 | | Canal+/Sogecable/Vivendi | 1,774 | 1,774 | 1,765 | 1,756 | 1,783 | 1,745 | 1,736 | 1,734 | 1,705 | 1,646 | 1,655 | 1,649 | 0 | 0 | 0 | | **Total** | **3,587** | **3,579** | **3,576** | **3,580** | **3,570** | **3,502** | **3,447** | **3,388** | **3,287** | **3,174** | **3,134** | **3,188** | **1,598** | **2,079** | **2,443** | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF | (2) | (2) | 20 | 29 | (20) | (21) | (33) | (49) | (51) | (27) | (23) | 63 | 58 | 479 | 370 | | ONO | 5 | (6) | (13) | (17) | (16) | (9) | (14) | (9) | (19) | (24) | (23) | (17) | (8) | (4) | (3) | | Orange | (1) | (1) | (1) | 1 | 0 | (0) | 1 | 2 | (2) | (3) | (3) | 14 | 10 | 5 | (2) | | Canal+/Sogecable/Vivendi | 1 | 1 | (9) | (9) | 27 | (38) |  |  |  |  |  |  |  |  |  | | **Total** | **3** | **(8)** | **(3)** | **4** | **(10)** | **(68)** |  |  |  |  |  |  |  |  |  | | **Other** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | VDSL customers/ FttH | 66 | 93 | 126 | 163 | 200 | 232 | 264 | 330 | 372 | 431 | 494 | 594 | 701 | 861 | 1,069 | |
| Source: Citi Research and Company Reports |

Sweden

### Fixed

* Telia’s retail line loss was stable at -83k in 3Q14 vs 85k in 2Q14. Telia’s fixed line revenue decline deteriorated slightly to -2.2% in 3Q14 vs -1.8% in 2Q14.

### Mobile

* The Swedish mobile market remained one of the fastest-growing in Europe with service revenue growth excluding MTR cuts with the growth rate improving to 5.3% from 2.5% in 2Q14 and 3.1% in 1Q14.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 358. Telephony Net Adds |  | Figure 359. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 360. Broadband Subscriber Net Adds |  | Figure 361. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 362. Revenue and GDP |  | Figure 363. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 364. Post-Paid Net Adds |  | Figure 365. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 366. Service revenue growth (excl MTR cuts) |  | Figure 367. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## 

## Sweden Mobile Data

|  |
| --- |
| Figure 368. Sweden Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Sweden** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, SEK m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 1,744 | 1,793 | 1,778 | 1,802 | 1,783 | 1,798 | 1,784 | 1,738 | 1,699 | 1,720 | 1,752 | 1,757 | 1,728 | 1,759 | 1,785 | | Telia | 3,449 | 3,628 | 3,620 | 3,611 | 3,606 | 3,715 | 3,618 | 3,709 | 3,561 | 3,727 | 3,669 | 3,630 | 3,622 | 3,707 | 3,745 | | 3 (Hutch) | 1,132 | 1,171 | 1,207 | 1,278 | 1,276 | 1,315 | 1,340 | 1,375 | 1,397 | 1,415 | 1,447 | 1,485 | 1,507 | 1,603 | 1,718 | | Tele2 | 1,982 | 2,093 | 2,110 | 2,040 | 2,016 | 2,138 | 2,043 | 2,022 | 1,932 | 2,020 | 1,996 | 1,984 | 2,000 | 2,039 | 2,087 | | **Total** | **8,307** | **8,685** | **8,715** | **8,731** | **8,682** | **8,966** | **8,785** | **8,843** | **8,589** | **8,882** | **8,864** | **8,856** | **8,857** | **9,108** | **9,335** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 4.9% | 3.1% | 2.3% | 2.1% | 2.3% | 0.3% | 0.4% | (3.6%) | (4.8%) | (4.3%) | (1.8%) | 1.1% | 1.7% | 2.3% | 1.9% | | Telia | 5.7% | 5.6% | 7.8% | 5.7% | 4.6% | 2.4% | (0.1%) | 2.7% | (1.2%) | 0.3% | 1.4% | (2.1%) | 1.7% | (0.6%) | 2.1% | | 3 (Hutch) | 27.7% | 32.1% | 24.6% | 21.7% | 12.7% | 12.3% | 11.0% | 7.6% | 9.5% | 7.6% | 8.0% | 8.0% | 7.9% | 13.3% | 18.8% | | Tele2 | 9.5% | 9.8% | 5.7% | 5.0% | 1.7% | 2.1% | (3.2%) | (0.9%) | (4.2%) | (5.5%) | (2.3%) | (1.9%) | 3.5% | 0.9% | 4.6% | | **Total** | **9.0%** | **9.0%** | **8.1%** | **6.8%** | **4.5%** | **3.2%** | **0.8%** | **1.3%** | **(1.1%)** | **(0.9%)** | **0.9%** | **0.1%** | **3.1%** | **2.5%** | **5.3%** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 21.0% | 20.6% | 20.4% | 20.6% | 20.5% | 20.1% | 20.3% | 19.7% | 19.8% | 19.4% | 19.8% | 19.8% | 19.5% | 19.3% | 19.1% | | Telia | 41.5% | 41.8% | 41.5% | 41.4% | 41.5% | 41.4% | 41.2% | 41.9% | 41.5% | 42.0% | 41.4% | 41.0% | 40.9% | 40.7% | 40.1% | | 3 (Hutch) | 13.6% | 13.5% | 13.8% | 14.6% | 14.7% | 14.7% | 15.2% | 15.5% | 16.3% | 15.9% | 16.3% | 16.8% | 17.0% | 17.6% | 18.4% | | Tele2 | 23.9% | 24.1% | 24.2% | 23.4% | 23.2% | 23.8% | 23.3% | 22.9% | 22.5% | 22.7% | 22.5% | 22.4% | 22.6% | 22.4% | 22.4% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 1,771 | 1,804 | 1,850 | 1,921 | 1,957 | 2,000 | 2,047 | 2,082 | 2,088 | 2,102 | 2,125 | 2,185 | 2,188 | 2,194 | 2,217 | | Telia | 3,722 | 3,831 | 3,947 | 4,074 | 4,173 | 4,243 | 4,322 | 4,404 | 4,435 | 4,468 | 4,485 | 4,501 | 4,521 | 4,571 | 4,625 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 1,445 | 1,484 | 1,450 | 1,528 | 1,526 | 1,560 | 1,491 | 1,577 | 1,537 | 1,621 | 1,528 | 1,664 | 1,671 | 1,752 | 1,680 | | Telia | 4,260 | 4,494 | 4,319 | 4,584 | 4,631 | 4,730 | 4,547 | 4,886 | 4,768 | 5,016 | 4,681 | 4,992 | 4,934 | 5,173 | 4,960 | | 3 (Hutch) | 1,059 | 1,119 | 1,098 | 1,165 | 1,197 | 1,263 | 1,233 | 1,346 | 1,344 | 1,424 | 1,392 | 1,479 | 1,503 | 1,598 | 1,599 | | Tele2 | 2,676 | 2,759 | 2,687 | 2,724 | 2,685 | 2,788 | 2,709 | 2,957 | 2,872 | 2,867 | 2,898 | 2,896 | 2,866 | 2,858 | 2,865 | | **Total** | **9,440** | **9,856** | **9,554** | **10,000** | **10,038** | **10,340** | **9,980** | **10,766** | **10,521** | **10,929** | **10,499** | **11,030** | **10,973** | **11,380** | **11,104** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 8.9% | 3.4% | 3.0% | 3.6% | 5.6% | 5.1% | 2.9% | 3.3% | 0.7% | 3.9% | 2.4% | 5.5% | 8.7% | 8.1% | 9.9% | | Telia | 10.0% | 8.6% | 8.0% | 6.4% | 8.7% | 5.2% | 5.3% | 6.6% | 3.0% | 6.1% | 2.9% | 2.2% | 3.5% | 3.1% | 6.0% | | 3 (Hutch) | 25.0% | 19.3% | 14.6% | 12.2% | 13.0% | 12.9% | 12.3% | 15.6% | 12.3% | 12.8% | 12.9% | 9.9% | 11.9% | 12.2% | 14.8% | | Tele2 | 9.8% | 15.6% | 7.8% | 3.0% | 0.3% | 1.1% | 0.8% | 8.5% | 7.0% | 2.8% | 7.0% | (2.1%) | (0.2%) | (0.3%) | (1.1%) | | **Total** | **11.3%** | **10.8%** | **7.9%** | **5.7%** | **6.3%** | **4.9%** | **4.5%** | **7.7%** | **4.8%** | **5.7%** | **5.2%** | **2.5%** | **4.3%** | **4.1%** | **5.8%** | | **EBITDA, SEK m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 1,762 | 1,848 | 2,000 | 1,779 | 1,887 | 1,810 | 1,839 | 1,831 | 1,881 | 1,860 | 1,944 | 1,773 | 1,865 |  |  | | Tele2 | 669 | 734 | 723 | 716 | 656 | 637 | 828 | 748 | 732 | 757 | 760 | 722 | 745 | 777 |  | |
| Source: Citi Research and Company Reports |

## Sweden Fixed Data

|  |
| --- |
| Figure 369. Sweden Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Sweden** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,135 | 1,134 | 1,138 | 1,149 | 1,156 | 1,159 | 1,164 | 1,175 | 1,183 | 1,188 | 1,199 | 1,208 | 1,224 | 1,230 | 1,242 | | ULL (total) | 525 | 531 | 520 | 512 | 503 | 487 | 473 | 462 | 448 | 432 | 417 | 403 | 389 | 374 | 359 | | Cable | 538 | 537 | 545 | 551 | 550 | 545 | 544 | 543 | 542 | 543 | 551 | 558 | 570 | 577 | 594 | | Other | 607 | 611 | 615 | 619 | 639 | 660 | 680 | 700 | 685 | 669 | 654 | 762 | 762 | 762 | 762 | | **Total** | **2,804** | **2,813** | **2,818** | **2,831** | **2,848** | **2,850** | **2,861** | **2,880** | **2,858** | **2,833** | **2,820** | **2,931** | **2,945** | **2,943** | **2,957** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 1,135 | 1,134 | 1,138 | 1,149 | 1,156 | 1,159 | 1,164 | 1,175 | 1,183 | 1,188 | 1,199 | 1,208 | 1,224 | 1,230 | 1,242 | | Telenor | 335 | 312 | 322 | 317 | 315 | 307 | 336 | 337 | 335 | 330 | 327 | 327 | 417 | 406 | 407 | | Tele2 | 490 | 483 | 472 | 474 | 479 | 483 | 486 | 484 | 471 | 474 | 472 | 465 | 74 | 68 | 64 | | Com Hem | 538 | 537 | 545 | 551 | 550 | 545 | 544 | 543 | 542 | 543 | 551 | 558 | 570 | 577 | 594 | | - other | 307 | 347 | 341 | 340 | 349 | 356 | 331 | 341 | 327 | 297 | 272 | 372 | 660 | 662 | 650 | | **Total** | **2,804** | **2,813** | **2,818** | **2,831** | **2,848** | **2,850** | **2,861** | **2,880** | **2,858** | **2,833** | **2,820** | **2,931** | **2,945** | **2,943** | **2,957** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 6 | (1) | 4 | 11 | 7 | 3 | 5 | 11 | 8 | 5 | 11 | 9 | 16 | 6 | 12 | | Telenor | (10) | (23) | 10 | (5) | (2) | (7) | 28 | 1 | (2) | (5) | (3) | 1 | 90 | (11) | 1 | | Tele2 | 4 | (7) | (11) | 2 | 5 | 4 | 3 | (2) | (13) | 3 | (2) | (7) | (6) | (6) | (4) | | Com Hem | 0 | (1) | 8 | 6 | (1) | (6) | (0) | (1) | (1) | 1 | 7 | 8 | 12 | 7 | 17 | | - other | 0 | 40 | (6) | (1) | 9 | 8 | (25) | 10 | (14) | (29) | (25) | 100 | 287 | 2 | (12) | | **Total** | **0** | **8** | **5** | **13** | **17** | **2** | **11** | **19** | **(22)** | **(25)** | **(12)** | **111** | **14** | **(2)** | **14** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 3,164 | 3,095 | 3,028 | 2,948 | 2,857 | 2,774 | 2,695 | 2,616 | 2,516 | 2,438 | 2,375 | 2,290 | 2,209 | 2,124 | 2,041 | | Incumbent wholesale (WLR) | 843 | 816 | 793 | 771 | 735 | 705 | 677 | 648 | 620 | 595 | 573 | 554 | 537 | 522 | 507 | | ULL (total) | 525 | 531 | 520 | 512 | 503 | 487 | 473 | 462 | 448 | 432 | 417 | 403 | 389 | 374 | 359 | | Cable | 371 | 374 | 375 | 376 | 370 | 360 | 355 | 348 | 340 | 334 | 330 | 327 | 327 | 326 | 329 | | **Total** | **4,903** | **4,816** | **4,716** | **4,607** | **4,465** | **4,326** | **4,200** | **4,074** | **3,924** | **3,799** | **3,695** | **3,574** | **3,462** | **3,346** | **3,236** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (50) | (69) | (67) | (80) | (91) | (83) | (79) | (79) | (100) | (78) | (63) | (85) | (81) | (85) | (83) | | Incumbent wholesale (WLR) | (22) | (27) | (23) | (22) | (36) | (30) | (28) | (29) | (28) | (25) | (22) | (19) | (17) | (15) | (15) | | ULL (total) | (10) | 6 | (11) | (8) | (9) | (16) | (14) | (11) | (14) | (16) | (15) | (14) | (14) | (15) | (15) | | Cable | 1 | 2 | 1 | 1 | (7) | (9) | (5) | (7) | (9) | (6) | (4) | (3) | (0) | (1) | 3 | | **Total** | **(81)** | **(88)** | **(100)** | **(109)** | **(143)** | **(138)** | **(126)** | **(126)** | **(151)** | **(125)** | **(104)** | **(121)** | **(112)** | **(116)** | **(110)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia IPTV | 473 | 488 | 496 | 515 | 530 | 546 | 560 | 580 | 596 | 604 | 621 | 641 | 650 | 663 | 681 | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telia | 23 | 15 | 8 | 19 | 15 | 16 | 14 | 20 | 16 | 8 | 17 | 20 | 9 | 13 | 18 | |
| Source: Citi Research and Company Reports |

Switzerland

### Fixed

* Retails market line loss improved with -3.2% yoy growth vs. -3.6% in 2Q14 however total market lines declined -3.8% (from -3.6% in 2Q) with higher LLU subscriber loss. Market broadband net adds remained stable at 31k in 3Q14 vs. 20k in 3Q13 and 37k in 2Q14.

### Mobile

* Mobile service revenue growth excluding MTRs declined slightly to 3.3% vs. 4.1% in 2Q mainly due to Orange Switzerland partly off set by Swisscom’s 4.7% growth (vs. 5.8% in 2Q).

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 370. Telephony Net Adds |  | Figure 371. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 372. Broadband Subscriber Net Adds |  | Figure 373. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 374. Revenue and GDP |  | Figure 375. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 376. Post-Paid Net Adds |  | Figure 377. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Switzerland Mobile Data

|  |
| --- |
| Figure 378. Swiss Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Switzerland** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, CHFm** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 833 | 863 | 887 | 826 | 849 | 860 | 856 | 806 | 822 | 837 | 864 | 829 | 855 | 869 | 888 | | Orange | 271 | 285 | 300 | 306 | 285 | 298 | 306 | 312 | 286 | 293 | 304 | 297 | 275 | 278 | 290 | | **Total** | **1,354** | **1,406** | **1,457** | **1,390** | **1,391** | **1,418** | **1,426** | **1,373** | **1,360** | **1,383** | **1,434** | **1,383** | **1,385** | **1,405** | **1,446** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 0.4% | (1.9%) | (2.5%) | (3.5%) | 1.9% | (0.3%) | (3.5%) | (2.4%) | (3.1%) | (2.7%) | 1.0% | 2.9% | 4.0% | 3.9% | 2.7% | | Orange | (6.8%) | (5.4%) | (3.8%) | 8.3% | 5.2% | 4.5% | 2.0% | 2.0% | 0.5% | (1.8%) | (0.7%) | (4.8%) | (4.1%) | (4.9%) | (4.5%) | | **Total** | **(1.5%)** | **(2.8%)** | **(2.9%)** | **(0.6%)** | **2.7%** | **0.9%** | **(2.1%)** | **(1.2%)** | **(2.2%)** | **(2.5%)** | **0.6%** | **0.7%** | **1.9%** | **1.6%** | **0.8%** | | **Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 5,861 | 5,913 | 5,980 | 6,049 | 6,082 | 6,114 | 6,153 | 6,217 | 6,270 | 6,307 | 6,346 | 6,407 | 6,429 | 6,460 | 6,499 | | Orange | 2,020 | 2,021 | 2,040 | 2,062 | 2,075 | 2,104 | 2,106 | 2,124 | 2,056 | 2,101 | 2,109 | 2,146 | 2,147 | 2,180 | 2,141 | | **Customer Net Adds, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 33 | 52 | 67 | 69 | 33 | 32 | 39 | 64 | 53 | 37 | 39 | 61 | 22 | 31 | 39 | | Orange | 1 | 1 | 19 | 22 | 13 | 29 | 2 | 18 | (68) | 45 | 8 | 37 | 1 | 33 | (39) | |
| Source: Citi Research and Company Reports |

## Switzerland Fixed Data

|  |
| --- |
| Figure 379. Swiss Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Switzerland** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 1,604 | 1,618 | 1,635 | 1,661 | 1,682 | 1,694 | 1,708 | 1,727 | 1,751 | 1,767 | 1,781 | 1,811 | 1,833 | 1,855 | 1,872 | | Incumbent wholesale | 214 | 202 | 192 | 181 | 179 | 176 | 181 | 186 | 196 | 201 | 208 | 215 | 221 | 224 | 241 | | ULL (total) | 270 | 285 | 297 | 306 | 312 | 317 | 310 | 300 | 290 | 280 | 268 | 256 | 241 | 228 | 208 | | Cable | 518 | 525 | 535 | 553 | 565 | 575 | 586 | 595 | 626 | 636 | 647 | 664 | 675 | 701 | 717 | | **Total** | **2,606** | **2,630** | **2,659** | **2,701** | **2,738** | **2,762** | **2,785** | **2,808** | **2,863** | **2,884** | **2,904** | **2,946** | **2,970** | **3,008** | **3,038** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 1,604 | 1,618 | 1,635 | 1,661 | 1,682 | 1,694 | 1,708 | 1,727 | 1,751 | 1,767 | 1,781 | 1,811 | 1,833 | 1,855 | 1,872 | | Cablecom (LGI) | 518 | 525 | 535 | 553 | 565 | 575 | 586 | 595 | 626 | 636 | 647 | 664 | 675 | 701 | 717 | | - other | 484 | 487 | 489 | 487 | 491 | 493 | 491 | 486 | 486 | 481 | 476 | 471 | 462 | 452 | 449 | | **Total** | **2,606** | **2,630** | **2,659** | **2,701** | **2,738** | **2,762** | **2,785** | **2,808** | **2,863** | **2,884** | **2,904** | **2,946** | **2,970** | **3,008** | **3,038** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 20 | 14 | 17 | 26 | 21 | 12 | 14 | 19 | 24 | 16 | 14 | 30 | 22 | 22 | 17 | | Cablecom (LGI) | 8 | 7 | 10 | 18 | 12 | 10 | 11 | 9 | 32 | 10 | 11 | 16 | 12 | 25 | 17 | | - other | 3 | 3 | 2 | (2) | 4 | 2 | (2) | (5) | 0 | (5) | (5) | (5) | (9) | (10) | (3) | | **Total** | **31** | **24** | **29** | **42** | **37** | **24** | **23** | **23** | **56** | **21** | **20** | **41** | **25** | **37** | **31** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 3,201 | 3,169 | 3,143 | 3,120 | 3,093 | 3,058 | 3,034 | 3,013 | 2,970 | 2,936 | 2,905 | 2,879 | 2,856 | 2,830 | 2,811 | | ULL (total) | 270 | 285 | 297 | 306 | 312 | 317 | 310 | 300 | 290 | 280 | 268 | 256 | 241 | 228 | 208 | | Cable | 333 | 339 | 350 | 363 | 376 | 385 | 402 | 421 | 432 | 439 | 447 | 459 | 463 | 466 | 466 | | **Total** | **3,804** | **3,793** | **3,790** | **3,789** | **3,781** | **3,760** | **3,746** | **3,734** | **3,692** | **3,655** | **3,620** | **3,594** | **3,560** | **3,524** | **3,485** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (12) | (32) | (26) | (23) | (27) | (35) | (24) | (21) | (43) | (34) | (31) | (26) | (23) | (26) | (19) | | ULL (total) | 15 | 15 | 12 | 9 | 6 | 5 | (7) | (10) | (10) | (10) | (12) | (12) | (15) | (13) | (20) | | Cable | 6 | 6 | 11 | 14 | 13 | 9 | 17 | 19 | 11 | 7 | 9 | 11 | 5 | 3 | (1) | | **Total** | **9** | **(11)** | **(4)** | **(0)** | **(8)** | **(21)** | **(14)** | **(12)** | **(42)** | **(37)** | **(34)** | **(27)** | **(34)** | **(36)** | **(40)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 469 | 512 | 556 | 608 | 655 | 694 | 728 | 791 | 860 | 902 | 943 | 1,000 | 1,052 | 1,091 | 1,125 | | Cablecom (LGI) | 1,516 | 1,512 | 1,517 | 1,487 | 1,500 | 1,501 | 1,506 | 1,449 | 1,433 | 1,425 | 1,430 | 1,416 | 1,422 | 1,415 | 1,411 | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Swisscom | 48 | 43 | 44 | 52 | 47 | 39 | 34 | 63 | 69 | 42 | 41 | 57 | 52 | 39 | 34 | | Cablecom (LGI) | (4) | (4) | 5 | (29) | 13 | 1 | 5 | (58) | (16) | (8) | 5 | (14) | 5 | (6) | (5) | |
| Source: Citi Research and Company Reports |

UK

### Fixed

* BT’s retail line loss remained stable at -154k in 3Q vs. -159k in 2Q14 and -136k in 3Q13, while the yoy decline deteriorated slightly at -4.5% vs. -4.3% in 2Q. Fixed broadband market improved to +232k net additions with BT net adds slowed down to 88k (104k in 2Q). Virgin Media added 42k broadband subscribers in 3Q (vs. -7k in 2Q) while Sky added 75k in 3Q (vs. 50k in 2Q).

### Mobile

* Service revenue growth excluding the impact of MTR cuts improved to -0.8% in 3Q14 compared to-1.5% in 2Q14 and -2.5% in 1Q14. Minutes growth also improved to -0.1% from -1.2% in 2Q14.

## Fixed Charts

|  |  |  |
| --- | --- | --- |
| Figure 380. Telephony Net Adds |  | Figure 381. Line Loss, Incumbent Revenue Growth and GDP |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports, Citi Research and Datastream |
| Figure 382. Broadband Subscriber Net Adds |  | Figure 383. Broadband Subscriber Market Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## Mobile Charts

|  |  |  |
| --- | --- | --- |
| Figure 384. Revenue and GDP |  | Figure 385. Service Revenue Market Share |
|  |  |  |
| Source: Company reports, Citi Research and Datastream |  | Source: Company reports and Citi Research |
| Figure 386. Post-Paid Net Adds |  | Figure 387. Change in Service Revenue and Contract Sub Share |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |
| Figure 388. Service revenue growth (excl MTR cuts) |  | Figure 389. Minutes growth |
|  |  |  |
| Source: Company reports and Citi Research |  | Source: Company reports and Citi Research |

## UK Mobile Data

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| --- |
| Figure 390. UK Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **UK** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, £m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 1,239 | 1,205 | 1,249 | 1,256 | 1,241 | 1,186 | 1,188 | 1,175 | 1,142 | 1,111 | 1,129 | 1,110 | 1,096 | 1,104 | 1,126 | | O2 (Telefónica) | 1,383 | 1,329 | 1,356 | 1,310 | 1,266 | 1,225 | 1,228 | 1,197 | 1,174 | 1,180 | 1,141 | 1,116 | 1,082 | 1,092 | 1,102 | | Ev Ev | 1,554 | 1,516 | 1,556 | 1,540 | 1,503 | 1,486 | 1,496 | 1,467 | 1,422 | 1,421 | 1,446 | 1,445 | 1,387 | 1,406 | 1,411 | | Virgin Mobile | 133 | 129 | 138 | 139 | 135 | 135 | 134 | 137 | 132 | 126 | 132 | 135 | 134 | 139 | 142 | | 3 (Hutch) | 371 | 371 | 388 | 388 | 390 | 390 | 400 | 400 | 392 | 392 | 408 | 419 | 423 | 423 | 440 | | **Total** | **4,680** | **4,551** | **4,687** | **4,633** | **4,535** | **4,421** | **4,445** | **4,376** | **4,262** | **4,230** | **4,256** | **4,225** | **4,123** | **4,165** | **4,222** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 5.9% | 1.5% | 2.2% | 0.3% | 0.2% | (1.6%) | (4.9%) | (6.4%) | (8.0%) | (6.3%) | (5.0%) | (5.5%) | (4.0%) | (0.6%) | (0.3%) | | O2 (Telefónica) | 3.7% | (4.4%) | (5.1%) | (8.0%) | (8.4%) | (7.9%) | (9.5%) | (8.6%) | (7.3%) | (3.6%) | (7.0%) | (6.8%) | (7.8%) | (7.5%) | (3.4%) | | Ev Ev | 0.4% | (2.6%) | (1.9%) | (4.0%) | (3.3%) | (2.0%) | (3.9%) | (4.7%) | (5.4%) | (4.4%) | (3.3%) | (1.5%) | (2.5%) | (1.1%) | (2.4%) | | Virgin Mobile | 4.5% | (2.0%) | (0.4%) | 0.1% | 1.3% | 4.0% | (3.2%) | (1.2%) | (2.3%) | (6.3%) | (1.4%) | (1.4%) | 1.6% | 10.5% | 7.9% | | 3 (Hutch) | 20.1% | 27.6% | 22.5% | 22.5% | 5.0% | 5.0% | 3.0% | 3.0% | 0.5% | 0.5% | 2.0% | 4.9% | 8.0% | 8.0% | 8.0% | | **Total** | **4.3%** | **(0.1%)** | **(0.1%)** | **(2.2%)** | **(3.1%)** | **(2.8%)** | **(5.2%)** | **(5.5%)** | **(6.0%)** | **(4.3%)** | **(4.3%)** | **(3.4%)** | **(3.3%)** | **(1.5%)** | **(0.8%)** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 26.5% | 26.5% | 26.6% | 27.1% | 27.4% | 26.8% | 26.7% | 26.9% | 26.8% | 26.3% | 26.5% | 26.3% | 26.6% | 26.5% | 26.7% | | O2 (Telefónica) | 29.5% | 29.2% | 28.9% | 28.3% | 27.9% | 27.7% | 27.6% | 27.4% | 27.5% | 27.9% | 26.8% | 26.4% | 26.3% | 26.2% | 26.1% | | Ev Ev | 33.2% | 33.3% | 33.2% | 33.2% | 33.1% | 33.6% | 33.7% | 33.5% | 33.4% | 33.6% | 34.0% | 34.2% | 33.6% | 33.8% | 33.4% | | Virgin Mobile | 2.9% | 2.8% | 2.9% | 3.0% | 3.0% | 3.0% | 3.0% | 3.1% | 3.1% | 3.0% | 3.1% | 3.2% | 3.3% | 3.3% | 3.4% | | 3 (Hutch) | 7.9% | 8.2% | 8.3% | 8.4% | 8.6% | 8.8% | 9.0% | 9.1% | 9.2% | 9.3% | 9.6% | 9.9% | 10.3% | 10.2% | 10.4% | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 9,649 | 9,864 | 10,045 | 10,226 | 10,312 | 10,484 | 10,777 | 11,030 | 11,105 | 11,196 | 11,328 | 11,519 | 11,667 | 11,727 | 11,781 | | O2 (Telefónica) | 10,650 | 10,675 | 10,765 | 10,940 | 11,163 | 11,414 | 11,619 | 11,901 | 12,152 | 12,444 | 12,662 | 12,884 | 13,019 | 13,218 | 13,427 | | Ev Ev | 12,107 | 12,343 | 12,529 | 12,842 | 12,993 | 13,143 | 13,393 | 13,594 | 13,759 | 13,976 | 14,156 | 14,350 | 14,473 | 14,638 | 14,757 | | Virgin Mobile | 1,263 | 1,347 | 1,421 | 1,524 | 1,588 | 1,642 | 1,671 | 1,709 | 1,744 | 1,793 | 1,852 | 1,879 | 1,958 | 2,020 | 2,074 | | 3 (Hutch) | 3,909 | 4,013 | 4,234 | 4,455 | 4,646 | 4,837 | 4,988 | 5,263 | 5,399 | 5,535 | 5,710 | 5,885 | 5,901 | 5,916 | 5,932 | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 10,616 | 10,600 | 10,759 | 10,820 | 10,646 | 10,612 | 10,454 | 10,697 | 10,724 | 10,371 | 10,752 | 10,962 | 10,919 | 10,730 | 10,908 | | Telefónica | 13,500 | 13,139 | 12,920 | 12,690 | 12,254 | 12,008 | 12,077 | 11,910 | 11,940 | 12,105 | 12,196 | 12,238 | 11,973 | 12,361 | 12,252 | | Ev Ev | 16,505 | 16,498 | 16,345 | 16,352 | 16,270 | 16,198 | 15,702 | 15,724 | 15,906 | 15,810 | 15,412 | 15,568 | 15,249 | 14,735 | 15,171 | | Virgin Mobile | 1,449 | 1,509 | 1,576 | 1,639 | 1,699 | 1,771 | 1,841 | 1,931 | 2,029 | 2,123 | 2,261 | 2,396 | 2,470 | 2,592 | 2,758 | | 3 Hutch | 3,288 | 3,407 | 3,541 | 3,673 | 3,725 | 3,772 | 3,818 | 3,942 | 4,056 | 4,088 | 4,212 | 4,414 | 4,413 | 4,345 | 4,330 | | **Total** | **45,358** | **45,153** | **45,141** | **45,173** | **44,593** | **44,362** | **43,892** | **44,204** | **44,655** | **44,497** | **44,833** | **45,578** | **45,025** | **44,762** | **45,420** | | **Call Volume growth** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | (2.3%) | (1.0%) | 1.8% | 0.5% | 0.3% | 0.1% | (2.8%) | (1.1%) | 0.7% | (2.3%) | 2.9% | 2.5% | 1.8% | 3.5% | 1.5% | | Telefónica | (4.6%) | (8.4%) | (11.3%) | (15.8%) | (9.2%) | (8.6%) | (6.5%) | (6.1%) | (2.6%) | 0.8% | 1.0% | 2.8% | 0.3% | 2.1% | 0.5% | | Ev Ev | 2.8% | 0.0% | 2.2% | (0.5%) | (1.4%) | (1.8%) | (3.9%) | (3.8%) | (2.2%) | (2.4%) | (1.8%) | (1.0%) | (4.1%) | (6.8%) | (1.6%) | | Virgin Mobile | 14.9% | 14.7% | 15.4% | 12.2% | 17.2% | 17.4% | 16.8% | 17.8% | 19.5% | 19.8% | 22.8% | 24.1% | 21.7% | 22.1% | 22.0% | | 3 Hutch | 19.0% | 17.0% | 17.0% | 12.2% | 13.3% | 10.7% | 7.8% | 7.3% | 8.9% | 8.4% | 10.3% | 12.0% | 8.8% | 6.3% | 2.8% | | **Total** | **0.6%** | **(1.3%)** | **(0.8%)** | **(3.9%)** | **(1.7%)** | **(1.8%)** | **(2.8%)** | **(2.1%)** | **0.1%** | **0.3%** | **2.1%** | **3.1%** | **0.8%** | **0.6%** | **1.3%** | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 15.8% | 16.3% | 17.0% | 18.0% | 18.1% | 16.3% | 16.5% | 17.9% | 16.6% | 17.1% | 16.6% | 16.9% | 16.2% | 16.3% | 17.4% | | O2 (Telefónica) | 13.2% | 14.4% | 13.2% | 14.4% | 12.0% | 12.0% | 13.2% | 13.2% | 12.0% | 12.0% | 12.0% | 12.0% | 13.2% | 12.0% | 12.0% | | Ev Ev | 15.6% | 13.2% | 13.2% | 13.2% | 14.4% | 14.4% | 14.4% | 14.6% | 14.4% | 13.2% | 13.2% | 14.4% | 14.4% | 13.2% | 13.2% | | **Data Revenue (excl messaging) % Service Revenue** | | | | | | | | | | | | | | | | | Vodafone | 16.8% | 17.7% | 17.5% | 17.5% | 17.7% | 18.7% | 19.5% | 19.9% | 19.4% | 19.5% | 19.4% | 19.5% | 22.6% | 22.5% | 22.0% | | O2 (Telefónica) | 16.3% | 18.3% | 19.1% | 19.8% | 20.8% | 23.8% | 24.7% | 25.9% | 26.2% | 26.2% | 26.8% | 27.2% | 32.4% | 33.4% | 33.6% | | **EBITDA, £m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 315 | 311 | 322 | 332 | 329 | 294 | 295 | 314 | 306 | 348 | 354 | 360 | 356 | 319 | 326 | | O2 (Telefónica) | 418 | 409 | 401 | 365 | 279 | 326 | 360 | 333 | 287 | 359 | 366 | 369 | 335 | 327 | 383 | | **Capex, £m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 169 | 110 | 110 |  |  |  |  |  |  |  |  |  |  |  |  | | O2 (Telefónica) | 139 | 142 | 160 | 193 | 165 | 144 | 134 | 165 | 716 | 196 | 140 | 123 | 158 | 150 | 157 | |
| Source: Citi Research and Company Reports |

## UK Fixed Data

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| --- |
| Figure 391. UK Fixed Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **UK** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 5,691 | 5,832 | 5,998 | 6,144 | 6,280 | 6,365 | 6,446 | 6,569 | 6,704 | 6,799 | 6,961 | 7,111 | 7,281 | 7,385 | 7,473 | | Incumbent wholesale | 2,421 | 2,559 | 2,512 | 2,407 | 2,263 | 2,212 | 2,144 | 2,084 | 2,066 | 2,061 | 2,000 | 1,886 | 1,872 | 1,866 | 1,859 | | ULL (total) | 7,609 | 7,581 | 7,725 | 7,946 | 8,263 | 8,399 | 8,558 | 8,778 | 8,860 | 8,958 | 9,025 | 9,241 | 9,302 | 9,366 | 9,468 | | Cable | 4,061 | 4,049 | 4,073 | 4,103 | 4,149 | 4,153 | 4,210 | 4,272 | 4,310 | 4,306 | 4,337 | 4,376 | 4,416 | 4,416 | 4,464 | | **Total** | **19,783** | **20,021** | **20,308** | **20,600** | **20,955** | **21,129** | **21,358** | **21,703** | **21,940** | **22,124** | **22,323** | **22,614** | **22,871** | **23,033** | **23,264** | | **Broadband Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | BT Retail | 5,691 | 5,832 | 5,998 | 6,144 | 6,280 | 6,365 | 6,446 | 6,569 | 6,704 | 6,799 | 6,961 | 7,111 | 7,281 | 7,385 | 7,473 | | Virgin Media | 4,333 | 4,315 | 4,334 | 4,351 | 4,382 | 4,371 | 4,413 | 4,465 | 4,491 | 4,480 | 4,504 | 4,536 | 4,569 | 4,561 | 4,603 | | TalkTalk | 4,199 | 4,172 | 4,129 | 4,079 | 4,066 | 4,047 | 4,043 | 4,053 | 4,063 | 4,071 | 4,076 | 4,186 | 4,196 | 4,206 | 4,221 | | BSkyB | 3,830 | 3,988 | 4,110 | 4,271 | 4,481 | 4,603 | 4,683 | 4,795 | 4,906 | 4,906 | 5,017 | 5,127 | 5,197 | 5,247 | 5,322 | | EE | 713 | 701 | 695 | 694 | 693 | 684 | 693 | 663 | 659 | 674 | 683 | 695 | 714 | 742 | 760 | | - other | 1,017 | 1,013 | 1,042 | 1,061 | 1,053 | 1,058 | 1,080 | 1,158 | 1,117 | 1,194 | 1,082 | 959 | 914 | 891 | 885 | | **Total** | **19,783** | **20,021** | **20,308** | **20,600** | **20,955** | **21,129** | **21,358** | **21,703** | **21,940** | **22,124** | **22,323** | **22,614** | **22,871** | **23,033** | **23,264** | | **Broadband Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | BT Retail | 162 | 141 | 166 | 146 | 136 | 85 | 81 | 123 | 135 | 95 | 162 | 150 | 170 | 104 | 88 | | Virgin Media (cable and DSL) | 46 | (18) | 20 | 17 | 31 | (10) | 42 | 52 | 26 | (11) | 24 | 32 | 33 | (7) | 42 | | TalkTalk | (25) | (27) | (43) | (50) | (13) | (19) | (4) | 10 | 10 | 8 | 5 | 110 | 10 | 10 | 15 | | BSkyB (incl. UK Online) | 153 | 158 | 122 | 161 | 210 | 122 | 80 | 113 | 111 | (0) | 111 | 110 | 70 | 50 | 75 | | EE | (17) | (12) | (6) | (1) | (1) | (9) | 9 | (30) | (4) | 15 | 9 | 12 | 19 | 28 | 18 | | - other | (17) | (4) | 29 | 19 | (8) | 5 | 21 | 79 | (41) | 77 | (112) | (123) | (45) | (23) | (6) | | **Total** | **302** | **238** | **287** | **292** | **355** | **174** | **229** | **346** | **236** | **185** | **199** | **291** | **257** | **162** | **232** | | **Telephony Channels (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | 16,719 | 16,390 | 16,045 | 15,774 | 15,470 | 15,154 | 14,874 | 14,623 | 14,372 | 14,141 | 14,005 | 13,835 | 13,693 | 13,534 | 13,380 | | Incumbent wholesale | 6,180 | 6,250 | 6,390 | 6,320 | 6,246 | 6,165 | 6,062 | 6,007 | 5,772 | 5,577 | 5,400 | 5,270 | 5,069 | 4,967 | 4,902 | | ULL (total) | 4,268 | 4,584 | 4,885 | 5,240 | 5,631 | 5,848 | 6,110 | 6,384 | 6,702 | 6,995 | 7,239 | 7,585 | 7,846 | 8,013 | 8,180 | | Cable | 4,181 | 4,155 | 4,141 | 4,133 | 4,148 | 4,148 | 4,158 | 4,179 | 4,180 | 4,165 | 4,141 | 4,136 | 4,147 | 4,145 | 4,161 | | **Total** | **31,348** | **31,379** | **31,461** | **31,467** | **31,495** | **31,315** | **31,204** | **31,193** | **31,026** | **30,878** | **30,785** | **30,826** | **30,755** | **30,659** | **30,623** | | **Telephony Channels Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent retail | (354) | (329) | (345) | (271) | (304) | (316) | (280) | (251) | (251) | (231) | (136) | (170) | (142) | (159) | (154) | | Incumbent wholesale (WLR) | (90) | 70 | 140 | (70) | (74) | (81) | (103) | (55) | (235) | (195) | (177) | (130) | (201) | (102) | (65) | | ULL (total) | 256 | 316 | 301 | 355 | 391 | 217 | 262 | 274 | 318 | 293 | 244 | 346 | 261 | 167 | 167 | | Cable | 19 | (26) | (14) | (8) | 15 | 1 | 9 | 21 | 1 | (15) | (24) | (4) | 11 | (2) | 16 | | **Total** | **(169)** | **31** | **82** | **6** | **28** | **(179)** | **(112)** | **(11)** | **(168)** | **(148)** | **(93)** | **42** | **(72)** | **(96)** | **(36)** | | **Pay TV Subscribers (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | BT IPTV | 575 | 598 | 639 | 679 | 707 | 728 | 749 | 770 | 810 | 883 | 902 | 956 | 1,002 | 1,007 | 1,045 | | Sky | 10,147 | 10,187 | 10,213 | 10,471 | 10,549 | 10,606 | 10,654 | 10,742 | 10,812 | 11,153 | 11,224 | 11,330 | 11,420 | 11,495 | 11,546 | | Virgin Media | 3,789 | 3,768 | 3,762 | 3,763 | 3,775 | 3,768 | 3,778 | 3,796 | 3,782 | 3,766 | 3,753 | 3,750 | 3,749 | 3,734 | 3,739 | | TalkTalk |  |  |  |  |  |  |  | 80 | 230 | 390 | 557 | 732 | 917 | 1,102 | 1,217 | | **Total** | **14,511** | **14,553** | **14,614** | **14,913** | **15,031** | **15,102** | **15,181** | **15,388** | **15,634** | **16,192** | **16,436** | **16,768** | **17,088** | **17,338** | **17,547** | | **Pay TV Subscribers Net Adds (000s)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | BT IPTV | 30 | 23 | 41 | 40 | 28 | 21 | 21 | 21 | 40 | 73 | 19 | 54 | 46 | 5 | 38 | | Sky | 51 | 40 | 26 | 258 | 78 | 57 | 48 | 88 | 70 | 341 | 71 | 106 | 90 | 75 | 51 | | Virgin Media | 10 | (21) | (6) | 1 | 12 | (8) | 11 | 17 | (13) | (16) | (13) | (4) | (1) | (15) | 5 | | TalkTalk |  |  |  |  |  |  |  | 80 | 150 | 160 | 167 | 175 | 185 | 185 | 115 | | **Total** | **91** | **42** | **61** | **299** | **118** | **70** | **80** | **206** | **247** | **558** | **244** | **331** | **320** | **250** | **209** | | **Other** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | BT Infinity | 118 | 189 | 277 | 372 | 503 | 655 | 818 | 1,018 | 1,229 | 1,426 | 1,621 | 1,856 | 2,105 | 2,332 | 2,535 | |
| Source: Citi Research and Company Reports |

CEEMEA

Czech Republic

|  |
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| Figure 392. Czech Republic Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Czech** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, CZK m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 6,097 | 6,170 | 6,150 | 6,056 | 5,772 | 5,870 | 5,858 | 5,561 | 5,206 | 5,157 | 4,963 | 4,694 | 4,351 | 4,373 | 4,456 | | T- Mobile | 6,043 | 6,396 | 6,145 | 6,140 | 5,769 | 5,910 | 6,219 | 5,612 | 5,061 | 5,061 | 4,885 | 4,750 | 4,721 | 4,721 | 4,778 | | **Total** | **12,140** | **12,566** | **12,295** | **12,196** | **11,541** | **11,780** | **12,077** | **11,173** | **10,267** | **10,219** | **9,848** | **9,444** | **9,072** | **9,094** | **9,234** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | -9.4% | -11.6% | -10.0% | -8.9% | -5.3% | -4.9% | -4.7% | -8.2% | -9.8% | -12.1% | -15.3% | -15.6% | -16.4% | -15.2% | -10.2% | | T- Mobile | -10.8% | -8.4% | -10.7% | -7.9% | -4.5% | -7.6% | 1.2% | -8.6% | -12.3% | -14.4% | -21.4% | -15.4% | -6.7% | -6.7% | -2.2% | | **Total** | **-10.1%** | **-10.0%** | **-10.3%** | **-8.4%** | **-4.9%** | **-6.3%** | **-1.8%** | **-8.4%** | **-11.0%** | **-13.3%** | **-18.5%** | **-15.5%** | **-11.6%** | **-11.0%** | **-6.2%** | | **Mobile subs Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 35.8% | 36.0% | 36.0% | 36.2% | 36.3% | 36.4% | 36.4% | 36.4% | 36.1% | 36.1% | 36.0% | 35.9% | 35.6% | 35.5% | 35.4% | | T- Mobile | 40.4% | 40.1% | 39.8% | 39.5% | 39.4% | 39.3% | 39.2% | 39.4% | 39.9% | 40.2% | 40.6% | 41.0% | 41.6% | 41.8% | 42.0% | | Vodafone | 23.7% | 23.9% | 24.3% | 24.3% | 24.3% | 24.3% | 24.4% | 24.2% | 24.0% | 23.7% | 23.4% | 23.1% | 22.8% | 22.7% | 22.6% | | **Total Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 4,827 | 4,869 | 4,882 | 4,942 | 4,938 | 4,968 | 5,024 | 5,083 | 5,048 | 5,082 | 5,074 | 5,102 | 5,065 | 5,060 | 5,052 | | T- Mobile | 5,446 | 5,417 | 5,399 | 5,381 | 5,354 | 5,377 | 5,415 | 5,498 | 5,570 | 5,667 | 5,733 | 5,831 | 5,912 | 5,946 | 5,993 | | Vodafone | 3,194 | 3,230 | 3,299 | 3,313 | 3,299 | 3,321 | 3,365 | 3,375 | 3,358 | 3,334 | 3,301 | 3,277 | 3,236 | 3,227 | 3,226 | | **Total** | **13,467** | **13,516** | **13,580** | **13,636** | **13,591** | **13,666** | **13,804** | **13,956** | **13,976** | **14,083** | **14,108** | **14,210** | **14,213** | **14,233** | **14,271** | | **% Post-pay Customers** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 60.1% | 60.7% | 61.4% | 61.7% | 62.3% | 62.7% | 62.5% | 62.8% | 61.8% | 62.4% | 63.0% | 63.4% | 63.9% | 64.3% | 64.9% | | T- Mobile | 51.4% | 52.0% | 52.7% | 53.4% | 54.1% | 54.8% | 55.5% | 55.9% | 56.3% | 56.7% | 56.8% | 57.1% | 57.4% | 57.8% | 58.0% | | Vodafone | 54.4% | 55.1% | 54.4% | 54.8% | 55.0% | 55.5% | 55.6% | 55.9% | 56.1% | 56.6% | 57.3% | 59.0% | 60.5% | 61.3% | 61.8% | | **Total** | **55.2%** | **55.9%** | **56.2%** | **56.7%** | **57.3%** | **57.9%** | **58.1%** | **58.4%** | **58.3%** | **58.7%** | **59.2%** | **59.8%** | **60.4%** | **60.9%** | **61.3%** | | **ARPU, CZK** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 425 | 429 | 424 | 418 | 394 | 400 | 395 | 367 | 338 | 336 | 321 | 305 | 282 | 286 | 291 | | T- Mobile | 365 | 389 | 390 | 379 | 351 | 379 | 376 | 327 | 307 | 310 | 284 | 267 | 274 | 274 | 276 | | **ARPU growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | -7.6% | -10.1% | -10.4% | -10.1% | -7.3% | -6.8% | -7.0% | -12.2% | -14.1% | -15.8% | -18.7% | -16.9% | -16.5% | -15.0% | -9.4% | | T- Mobile | -11.7% | -10.5% | -7.9% | -4.4% | -3.9% | -2.6% | -3.6% | -13.7% | -12.7% | -18.2% | -24.4% | -18.4% | -10.5% | -11.4% | -2.9% | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 2,159 | 2,274 | 2,213 | 2,310 | 2,330 | 2,394 | 2,359 | 2,499 | 2,409 | 2,724 | 2,776 | 2,872 | 2,818 | 2,926 | 2,884 | | T- Mobile | 1,999 | 2,086 | 2,012 | 2,086 | 2,126 | 2,157 | 2,104 | 2,259 | 2,225 | 2,461 | 2,514 | 2,637 | 2,589 | 2,721 | 2,704 | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 1.5% | 0.6% | 2.0% | 3.5% | 7.9% | 5.3% | 6.6% | 8.2% | 3.4% | 13.8% | 17.7% | 14.9% | 17.0% | 7.4% | 3.9% | | T- Mobile | 4.3% | 1.1% | 1.5% | 0.1% | 6.4% | 3.4% | 4.6% | 8.3% | 4.7% | 14.1% | 19.4% | 16.7% | 16.4% | 10.6% | 7.6% | | **Total Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | TEF CZ | 24.0% | 20.4% | 22.8% | 21.6% | 22.8% | 20.4% | 19.2% | 21.6% | 32.4% | 21.6% | 25.2% | 25.2% | 28.8% | 25.2% | 22.8% | | T- Mobile | 15.6% | 15.6% | 15.6% | 15.6% | 14.4% | 13.2% | 13.2% | 13.2% | 13.2% | 13.2% | 14.4% | 15.6% | 15.6% | 15.6% | 15.6% | |
| Source: Citi Research and Company Reports |

Hungary

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| Figure 393. Hungary Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Hungary** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, HUF m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 54,547 | 57,283 | 58,921 | 56,795 | 54,429 | 58,369 | 58,745 | 58,131 | 53,839 | 56,274 | 57,456 | 57,083 | 54,509 | 56,746 | 58,502 | | Telenor | 34,720 | 37,149 | 38,339 | 37,653 | 35,070 | 34,962 | 37,259 | 37,585 | 34,016 | 35,696 | 35,144 | 35,257 | 33,432 | 34,787 | 35,603 | | **Total** | **89,267** | **94,432** | **97,260** | **94,448** | **89,499** | **93,331** | **96,004** | **95,716** | **87,855** | **91,970** | **92,600** | **92,340** | **87,941** | **91,533** | **94,105** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | -1.3% | -1.6% | -2.4% | -3.1% | -0.2% | 1.9% | -0.3% | 2.4% | -1.1% | -3.6% | -2.2% | -1.8% | 1.2% | 0.8% | 1.8% | | Telenor | -6.6% | -5.0% | -3.5% | -1.6% | 1.0% | -5.9% | -2.8% | -0.2% | -3.0% | 2.1% | -5.7% | -6.2% | -1.7% | -2.5% | 1.3% | | **Total** | **-3.4%** | **-3.0%** | **-2.8%** | **-2.5%** | **0.3%** | **-1.2%** | **-1.3%** | **1.3%** | **-1.8%** | **-1.5%** | **-3.5%** | **-3.5%** | **0.1%** | **-0.5%** | **1.6%** | | **Mobile Subs Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 46.2% | 46.4% | 46.6% | 46.5% | 46.9% | 47.3% | 47.4% | 47.2% | 47.6% | 47.7% | 47.5% | 47.9% | 48.1% | 48.1% | 48.1% | | Telenor | 30.1% | 30.0% | 29.8% | 29.8% | 29.5% | 29.2% | 29.2% | 29.5% | 29.1% | 29.0% | 29.1% | 29.0% | 28.9% | 28.6% | 28.6% | | Vodafone | 23.7% | 23.5% | 23.6% | 23.7% | 23.6% | 23.5% | 23.4% | 23.3% | 23.3% | 23.3% | 23.3% | 23.1% | 23.0% | 23.2% | 23.4% | | **Total Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 5,211 | 5,209 | 5,229 | 5,265 | 5,272 | 5,284 | 5,294 | 5,320 | 5,328 | 5,332 | 5,333 | 5,402 | 5,394 | 5,404 | 5,442 | | Telenor | 3,393 | 3,370 | 3,349 | 3,370 | 3,310 | 3,263 | 3,265 | 3,322 | 3,253 | 3,249 | 3,270 | 3,270 | 3,247 | 3,213 | 3,233 | | Vodafone | 2,676 | 2,642 | 2,654 | 2,684 | 2,657 | 2,628 | 2,612 | 2,631 | 2,606 | 2,606 | 2,618 | 2,598 | 2,578 | 2,606 | 2,647 | | **Total** | **11,280** | **11,221** | **11,232** | **11,319** | **11,239** | **11,175** | **11,171** | **11,273** | **11,187** | **11,187** | **11,221** | **11,270** | **11,219** | **11,223** | **11,322** | | **% Post-pay Customers** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 43.8% | 44.5% | 45.4% | 46.2% | 46.2% | 46.5% | 47.0% | 47.3% | 47.5% | 48.0% | 48.3% | 48.5% | 48.7% | 49.3% | 49.6% | | Telenor | 49.2% | 50.1% | 50.9% | 51.0% | 51.8% | 52.8% | 53.7% | 53.4% | 54.1% | 54.1% | 53.8% | 54.1% | 54.6% | 54.5% | 54.5% | | Vodafone | 46.6% | 47.9% | 48.5% | 48.7% | 49.2% | 49.9% | 49.6% | 50.1% | 50.6% | 51.3% | 51.6% | 52.4% | 53.8% | 54.9% | 55.3% | | **Total** | **46.1%** | **47.0%** | **47.8%** | **48.2%** | **48.6%** | **49.1%** | **49.6%** | **49.8%** | **50.1%** | **50.5%** | **50.7%** | **51.0%** | **51.6%** | **52.1%** | **52.3%** | | **ARPU, HUF** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 3,433 | 3,611 | 3,726 | 3,577 | 3,344 | 3,425 | 3,542 | 3,508 | 3,245 | 3,388 | 3,474 | 3,429 | 3,333 | 3,477 | 3,598 | | Telenor | 3,391 | 3,662 | 3,804 | 3,736 | 3,500 | 3,546 | 3,805 | 3,804 | 3,449 | 3,660 | 3,594 | 3,594 | 3,420 | 3,590 | 3,682 | | **ARPU growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 4.2% | 6.1% | 7.0% | 2.4% | -2.6% | -5.2% | -4.9% | -1.9% | -3.0% | -1.1% | -1.9% | -2.3% | 2.7% | 2.6% | 3.6% | | Telenor | -4.6% | -3.2% | -1.8% | 0.2% | 3.2% | -3.2% | 0.0% | 1.8% | -1.5% | 3.2% | -5.5% | -5.5% | -0.8% | -1.9% | 2.4% | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 2,570 | 2,706 | 2,745 | 2,745 | 2,683 | 2,719 | 2,687 | 2,723 | 2,674 | 2,794 | 2,765 | 2,772 | 2,725 | 2,918 | 2,960 | | Telenor | 1,843 | 1,927 | 1,915 | 1,905 | 1,864 | 1,873 | 1,851 | 1,858 | 1,913 | 2,009 | 2,024 | 2,011 | 1,984 | 2,083 | 2,118 | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 8.2% | 10.8% | 10.9% | 9.5% | 4.4% | 0.5% | -2.1% | -0.8% | -0.3% | 2.8% | 2.9% | 1.8% | 1.9% | 4.4% | 7.0% | | Telenor | 1.9% | 1.3% | 0.9% | -0.3% | 1.1% | -2.8% | -3.4% | -2.5% | 2.7% | 7.2% | 9.4% | 8.3% | 3.7% | 3.7% | 4.6% | | **Total Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Magyar | 18.6% | 19.3% | 19.6% | 21.1% | 17.0% | 17.0% | 18.8% | 20.9% | 18.0% | 18.1% | 18.5% | 19.0% | 18.2% | 17.3% | 18.5% | | **EBITDA, HUF m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Telenor | 12,069 | 12,675 | 14,277 | 9,163 | 12,330 | 12,204 | 11,453 | 10,288 | 12,575 | 13,396 | 11,766 | 9,818 | 11,711 | 12,552 | 11,587 | |
| Source: Citi Research and Company Reports |

Kazakhstan

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| Figure 394. Kazakhstan Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Kazakhstan** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue (Kzt mn)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  | 40889 | 43992 | 47075 | 48660 | 42884 | 46235 | 48746 | 49524 | 43966 | 46845 | 47049 | 47223 | | Vimplecom |  |  |  |  | 26453 | 28733 | 30488 | 29763 | 26129 | 28343 | 30882 | 30482 | 27009 | 30167 | 32257 | | Tele2 |  |  |  | 3530 | 3622 | 4869 | 5884 | 6475 | 6580 | 7494 | 8131 | 8444 | 7592 | 8444 | 9075 | | **Total** |  |  |  | **44,419** | **74,067** | **80,677** | **85,032** | **79,122** | **78,944** | **84,583** | **88,537** | **82,892** | **81,446** | **85,660** | **88,554** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  |  |  |  |  | 4.9% | 5.1% | 3.5% | 1.8% | 2.5% | 1.3% | -3.5% | -4.6% | | Vimplecom |  |  |  |  |  |  |  |  | -1.2% | -1.4% | 1.3% | 2.4% | 3.4% | 6.4% | 4.5% | | Tele2 |  |  |  |  |  |  |  | 83.4% | 81.7% | 53.9% | 38.2% | 30.4% | 15.4% | 12.7% | 11.6% | | **Total** |  |  |  |  |  |  |  |  | **6.6%** | **4.8%** | **4.1%** | **4.8%** | **3.2%** | **1.3%** | **0.0%** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  |  | 59.4% | 58.3% | 57.2% | 54.2% | 58.6% | 57.6% | 55.9% | 53.0% | 57.5% | 54.9% | 53.3% | | Vimplecom |  |  |  |  | 35.7% | 35.6% | 35.9% | 37.6% | 33.1% | 33.5% | 34.9% | 36.8% | 33.2% | 35.2% | 36.4% | | Tele2 |  |  |  |  | 4.9% | 6.0% | 6.9% | 8.2% | 8.3% | 8.9% | 9.2% | 10.2% | 9.3% | 9.9% | 10.2% | | **Total Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell | 9,357 | 9,707 | 10,141 | 10,850 | 11,174 | 11,691 | 12,686 | 13,463 | 13,792 | 14,145 | 14,251 | 14,307 | 13,491 | 12,883 | 13064 | | Vimplecom | 6,987 | 7,831 | 8,252 | 8,409 | 8,364 | 8,497 | 8,596 | 8,589 | 8,512 | 8,796 | 9,040 | 9,158 | 9,160 | 9,568 | 9837 | | Tele2 | 308 | 663 | 1,122 | 1,371 | 1,703 | 2,462 | 3,062 | 3,412 | 3,664 | 3,162 | 3,148 | 2,751 | 2,771 | 2,984 | 3092 | | **Total** | **16,652** | **18,201** | **19,515** | **20,630** | **21,241** | **22,650** | **24,344** | **25,464** | **25,969** | **26,103** | **26,439** | **26,216** | **25,422** | **25,435** | **25,993** | | **ARPU, Kzt** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell | 1,436 | 1,510 | 1,576 | 1,366 | 1,222 | 1,277 | 1,282 | 1,228 | 1,043 | 1,097 | 1,142 | 1,142 | 1,057 | 1,168 | 1195 | | Vimplecom | 1,174 | 1,249 | 1,262 | 1,161 | 1,049 | 1,137 | 1,187 | 1,156 | 1,012 | 1,101 | 1,141 | 1,110 | 975 | 1,058 | 1098 | | Tele2 (derived ARPU) |  |  | 973 | 944 | 786 | 779 | 710 | 667 | 620 | 732 | 859 | 954 | 917 | 978 | 996 | | **ARPU growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  |  | -14.9% | -15.4% | -18.7% | -10.1% | -14.6% | -14.1% | -10.9% | -7.0% | 1.3% | 6.5% | 4.6% | | Vimplecom |  | -11.5% | -11.1% | -14.6% | -10.6% | -9.0% | -5.9% | -0.4% | -3.6% | -3.2% | -3.9% | -4.0% | -3.6% | -3.9% | -3.8% | | Tele2 |  |  |  |  |  |  | -27.0% | -29.4% | -21.1% | -6.1% | 21.0% | 43.1% | 47.9% | 33.7% | 15.9% | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  | 4,786 | 5,286 | 6,036 | 6,399 | 6,354 | 5,524 | 5,959 | 5,974 | 5,855 | 5,576 | 5,848 | 5,959 | | Vimplecom |  |  |  | 4,123 | 4,518 | 5,346 | 5,680 | 6,112 | 6,518 | 7,789 | 8,320 | 8,217 | 8,051 | 9,158 | 9,227 | | **Total** |  |  |  | **8,909** | **9,804** | **11,383** | **12,079** | **12,466** | **12,042** | **13,748** | **14,294** | **14,072** | **13,627** | **15,006** | **15,186** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  |  |  |  |  | 32.8% | 4.5% | -1.3% | -6.6% | -7.9% | 0.9% | -1.9% | -0.3% | | Vimplecom |  |  |  |  |  |  |  | 48.2% | 44.3% | 45.7% | 46.5% | 34.4% | 23.5% | 17.6% | 10.9% | | **Total** |  |  |  |  |  |  |  | **39.9%** | **22.8%** | **20.8%** | **18.3%** | **12.9%** | **13.2%** | **9.2%** | **6.2%** | | **Total Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  | 33.5% | 36.3% | 32.4% | 19.5% | 19.2% | 23.1% | 30.7% | 39.9% | 35.1% | 56.0% | 52.9% | 33.0% | | Vimplecom | 11.4% | 9.4% | 13.1% | 13.5% | 14.2% | 12.9% | 14.2% | 14.5% | 13.2% | 10.8% | 12.0% | 12.9% | 12.9% | 10.9% | 12.9% | | **EBITDA, TLm** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kcell |  |  |  | 26819 | 23,454 | 25,064 | 26,654 | 26,254 | 23,728 | 25,508 | 26,893 | 28,598 | 25,673 | 27,536 | 27,624 | | Vimplecom |  |  |  | 13749 | 12706 | 14,456 | 16,828 | 14,822 | 13,373 | 14,991 | 14,966 | 16105 | 14558 | 16532 | 17322 | | Tele2 |  |  | (2,288) | (2,412) | (2,129) | (2,242) | (2,265) | (1,879) | (1,054) | (1,199) | (794) | (166) | 26 | 83 | 579 | |
| Source: Citi Research and Company Reports |

Poland

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| Figure 395. Poland Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Poland** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, ZL m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 1,699 | 1,788 | 1,792 | 1,767 | 1,697 | 1,784 | 1,706 | 1,660 | 1,533 | 1,590 | 1,514 | 1,473 | 1,438 | 1,456 | 1,425 | | T- Mobile | 1,642 | 1,675 | 1,682 | 1,618 | 1,524 | 1,558 | 1,506 | 1,444 | 1,309 | 1,318 | 1,240 | 1,252 | 1,138 | 1,155 | 1,165 | | Polkomtel | 1,667 | 1,740 | 1,743 | 1,694 | 1,629 | 1,678 | 1,631 | 1,619 | 1,491 | 1,522 | 1,448 | 1,415 | 1,345 |  |  | | **Total** | **5,008** | **5,204** | **5,218** | **5,079** | **4,850** | **5,020** | **4,843** | **4,723** | **4,333** | **4,430** | **4,202** | **4,140** | **3,922** |  |  | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska |  |  |  |  | -0.1% | -0.2% | -4.8% | -6.1% | -9.7% | -10.9% | -11.3% | -11.3% | -6.2% | -8.4% | -5.9% | | T- Mobile |  |  |  |  | -7.2% | -7.0% | -10.5% | -10.7% | -14.1% | -15.4% | -17.6% | -13.3% | -13.0% | -12.4% | -6.1% | | Polkomtel |  |  |  |  | -2.3% | -3.6% | -6.4% | -4.4% | -8.5% | -9.3% | -11.3% | -12.6% | -9.8% |  |  | | **Total** |  |  |  |  | **-3.1%** | **-3.5%** | **-7.2%** | **-7.0%** | **-10.7%** | **-11.7%** | **-13.2%** | **-12.4%** | **-9.5%** |  |  | | **Mobile Subs Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 30.1% | 30.0% | 29.7% | 29.0% | 28.6% | 28.4% | 27.9% | 27.6% | 27.3% | 27.1% | 27.2% | 27.3% | 27.3% | 27.3% | 27.3% | | T- Mobile | 27.5% | 27.2% | 27.2% | 28.0% | 28.4% | 29.0% | 29.4% | 29.7% | 29.2% | 29.0% | 28.2% | 27.7% | 27.9% | 27.7% | 27.5% | | Polkomtel | 29.5% | 29.1% | 28.5% | 27.7% | 27.1% | 26.5% | 26.0% | 25.6% | 25.4% | 25.3% | 25.4% | 25.2% | 24.6% | 24.2% | 24.0% | | Play | 11.8% | 12.5% | 13.2% | 14.0% | 14.5% | 15.0% | 15.5% | 16.1% | 17.2% | 17.8% | 18.5% | 19.1% | 19.4% | 19.9% | 20.6% | | **Total Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 14,420 | 14,536 | 14,614 | 14,659 | 14,613 | 14,758 | 14,760 | 14,896 | 14,886 | 14,947 | 15,126 | 15,325 | 15,395 | 15,461 | 15,591 | | T- Mobile | 13,175 | 13,203 | 13,406 | 14,161 | 14,512 | 15,049 | 15,575 | 16,040 | 15,919 | 15,969 | 15,667 | 15,563 | 15,748 | 15,675 | 15,728 | | Polkomtel | 14,119 | 14,113 | 14,030 | 13,993 | 13,856 | 13,763 | 13,771 | 13,839 | 13,857 | 13,935 | 14,120 | 14,120 | 13,896 | 13,719 | 13,700 | | Play | 5,650 | 6,050 | 6,500 | 7,080 | 7,400 | 7,773 | 8,200 | 8,689 | 9,380 | 9,825 | 10,297 | 10,733 | 10,943 | 11,275 | 11,790 | | **Total** | **47,907** | **48,453** | **49,205** | **50,548** | **51,094** | **51,965** | **52,902** | **53,971** | **54,527** | **55,155** | **55,610** | **56,136** | **56,392** | **56,634** | **57,110** | | **% Post-pay Customers** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 48.3% | 47.9% | 47.7% | 47.6% | 47.4% | 47.0% | 46.7% | 46.4% | 46.4% | 46.6% | 46.6% | 47.1% | 47.8% | 48.2% | 48.3% | | T- Mobile | 51.0% | 50.7% | 50.2% | 47.8% | 46.9% | 45.7% | 44.6% | 43.6% | 44.1% | 44.1% | 45.1% | 45.3% | 44.4% | 44.2% | 43.8% | | Polkomtel | 52.9% | 52.8% | 53.0% | 53.0% | 53.4% | 53.7% | 53.8% | 53.8% | 53.6% | 53.2% | 52.4% | 52.3% | 53.0% | 53.6% |  | | Play | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 44.3% | 43.9% | 44.6% | 44.1% | 44.4% | 44.3% | 44.4% | 45.0% | 45.6% | 46.3% | | **Total** | **44.1%** | **43.6%** | **43.0%** | **41.9%** | **41.4%** | **47.5%** | **47.0%** | **46.7%** | **46.7%** | **46.7%** | **46.9%** | **47.1%** | **47.2%** | **47.5%** |  | | **ARPU, ZL** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 39.7 | 41.6 | 41.5 | 40.7 | 39.1 | 40.9 | 38.8 | 37.9 | 34.9 | 36.2 | 34.2 | 32.8 | 31.8 | 32.1 | 31.4 | | T- Mobile | 39.5 | 43.6 | 41.5 | 39.8 | 33.9 | 34.0 | 33.1 | 28.8 | 29.1 | 29.4 | 25.5 | 25.1 | 25.1 | 25.0 | 25.0 | | Polkomtel | 39.9 | 41.1 | 41.3 | 40.3 | 39.0 | 40.5 | 39.5 | 39.1 | 35.9 | 36.5 | 34.4 | 33.4 | 32.0 |  |  | | **ARPU growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska |  |  |  |  | -1.5% | -1.7% | -6.5% | -6.9% | -10.7% | -11.5% | -11.9% | -13.5% | -8.9% | -11.3% | -8.2% | | T- Mobile |  |  |  |  | -14.2% | -21.8% | -20.3% | -27.6% | -14.1% | -13.7% | -23.0% | -12.8% | -13.6% | -14.9% | -1.7% | | Polkomtel |  |  |  |  | -2.3% | -1.5% | -4.4% | -3.0% | -7.9% | -9.9% | -12.9% | -14.6% | -10.9% |  |  | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 6,841 | 7,117 | 7,171 | 7,089 | 7,060 | 7,211 | 7,198 | 7,366 | 7,406 | 7,769 | 7,810 | 8,063 | 8,308 | 8,799 | 9,045 | | T- Mobile | 5,353 | 5,539 | 5,668 | 5,582 | 5,591 | 5,720 | 5,788 | 5,880 | 5,848 | 6,027 | 6,074 | 6,137 | 6,153 | 6,505 | 6,689 | | Polkomtel | 6,167 | 6,433 | 6,492 | 6,536 | 6,629 | 6,707 | 6,674 | 6,908 | 6,900 | 7,137 | 7,057 | 7,053 | 6,970 |  |  | | Play |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **Total** | **18,361** | **19,089** | **19,331** | **19,208** | **19,281** | **19,638** | **19,660** | **20,154** | **20,155** | **20,933** | **20,941** | **21,253** | **21,431** |  |  | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 13.3% | 5.4% | 4.7% | 0.5% | 3.2% | 1.3% | 0.4% | 3.9% | 4.9% | 7.7% | 8.5% | 9.5% | 12.2% | 13.2% | 15.8% | | T- Mobile | 6.3% | 3.5% | 4.5% | 0.7% | 4.5% | 3.3% | 2.1% | 5.3% | 4.6% | 5.4% | 4.9% | 4.4% | 5.2% | 7.9% | 10.1% | | Polkomtel |  |  |  |  | 7.5% | 4.3% | 2.8% | 5.7% | 4.1% | 6.4% | 5.7% | 2.1% | 1.0% |  |  | | **Total** | **65.8%** | **57.7%** | **57.5%** | **52.5%** | **5.0%** | **2.9%** | **1.7%** | **4.9%** | **4.5%** | **6.6%** | **6.5%** | **5.5%** | **6.3%** |  |  | | **Postpaid Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Orange Polska | 15.2% | 13.6% | 14.0% | 16.0% | 15.6% | 13.6% | 14.0% | 13.6% | 14.8% | 14.4% | 13.2% | 13.6% | 13.6% | 13.2% | 13.6% | | T- Mobile | 13.2% | 12.0% | 10.8% | 12.0% | 10.8% | 9.6% | 10.8% | 12.0% | 12.0% | 13.2% | 13.2% | 13.2% | 13.2% | 12.0% | 12.0% | | Polkomtel | 13.2% | 12.0% | 12.0% | 13.2% | 13.2% | 13.2% | 13.2% | 14.4% | 14.4% | 13.2% | 13.2% | 14.4% | 14.4% |  |  | | **EBITDA, ZL m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | T- Mobile | 568 | 697 | 648 | 676 | 538 | 592 | 662 | 658 | 582 | 617 | 616 | 699 | 561 | 588 | 622 | | Polkomtel | 700.3 | 779.2 | 749.5 | 597.6 | 707 | 743 | 720 | 616 | 716 | 753 | 763 | 625 | 729 | 746 | 661 | |
| Source: Citi Research and Company Reports |

Russia

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| --- |
| Figure 396. Russia Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Russia** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue (Rub mn)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 54,623 | 57,539 | 61,643 | 60,259 | 59,348 | 62,853 | 66,584 | 66,103 | 63,391 | 66,711 | 70,844 | 71,556 | 67,965 | 70,884 | 77,324 | | MegaFon | 49,707 | 53,276 | 56,394 | 57,314 | 55,140 | 58,893 | 62,103 | 62,003 | 58,890 | 62,810 | 67,232 | 68,261 | 63,887 | 65,416 | 68,663 | | Vimpelcom | 48,619 | 52,859 | 56,335 | 55,998 | 53,238 | 55,923 | 59,311 | 57,516 | 54,003 | 57,959 | 60,804 | 56,253 | 52,385 | 54,883 | 57,810 | | Tele2 | 11,732 | 12,768 | 13,531 | 13,783 | 13,627 | 14,642 | 15,243 | 16,057 | 15,400 | 16,400 | 17,000 | 16,500 | 15,500 | 21,800 | 24,900 | | Rostelecom | 10087 | 9969 | 10284 | 10320 | 10031 | 10446 | 10512 | 10172 | 9503 | 9939 | 9883 | 9,884 | 9,239 | 3,583 |  | | **Total** | **174,768** | **186,410** | **198,186** | **197,674** | **191,384** | **202,757** | **213,753** | **211,851** | **201,187** | **213,819** | **225,763** | **222,454** | **208,976** | **216,566** | **228,697** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 11.2% | 8.4% | 10.4% | 8.7% | 8.7% | 9.2% | 8.0% | 9.7% | 6.8% | 6.1% | 6.4% | 8.2% | 7.2% | 6.3% | 9.1% | | MegaFon | 9.9% | 7.4% | 6.4% | 7.9% | 10.9% | 10.5% | 10.1% | 8.2% | 6.8% | 6.7% | 8.3% | 10.1% | 8.5% | 4.1% | 2.1% | | Vimpelcom | 3.3% | 4.5% | 6.7% | 9.1% | 9.5% | 5.8% | 5.3% | 2.7% | 1.4% | 3.6% | 2.5% | -2.2% | -3.0% | -5.3% | -4.9% | | Tele2 / Tele2 JV | 25.9% | 22.9% | 19.6% | 8.6% | 8.4% | 10.3% | 8.1% | 8.8% | 5.3% | 5.0% | 4.4% | 0.6% | -0.7% | -3.6% | -7.4% | | **Total** | **10.3%** | **8.1%** | **9.2%** | **8.6%** | **9.5%** | **8.8%** | **7.9%** | **7.2%** | **5.1%** | **5.5%** | **5.6%** | **5.0%** | **3.9%** | **1.3%** | **1.3%** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 31.3% | 30.9% | 31.1% | 30.5% | 31.0% | 31.0% | 31.2% | 31.2% | 31.5% | 31.2% | 31.4% | 32.2% | 32.5% | 32.7% | 33.8% | | MegaFon | 28.4% | 28.6% | 28.5% | 29.0% | 28.8% | 29.0% | 29.1% | 29.3% | 29.3% | 29.4% | 29.8% | 30.7% | 30.6% | 30.2% | 30.0% | | Vimpelcom | 27.8% | 28.4% | 28.4% | 28.3% | 27.8% | 27.6% | 27.7% | 27.1% | 26.8% | 27.1% | 26.9% | 25.3% | 25.1% | 25.3% | 25.3% | | Tele2 | 6.7% | 6.8% | 6.8% | 7.0% | 7.1% | 7.2% | 7.1% | 7.6% | 7.7% | 7.7% | 7.5% | 7.4% | 7.4% | 10.1% | 10.9% | | Rostelecom | 5.8% | 5.3% | 5.2% | 5.2% | 5.2% | 5.2% | 4.9% | 4.8% | 4.7% | 4.6% | 4.4% | 4.4% | 4.4% | 1.7% | 0.0% | | **ARPU, Rub** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 252 | 265 | 288 | 284 | 281 | 297 | 313 | 306 | 325 | 339 | 348 | 342 | 325 | 336 | 358 | | MegaFon | 294 | 313 | 321 | 313 | 298 | 317 | 331 | 330 | 314 | 333 | 343 | 337 | 313 | 322 | 334 | | Vimpelcom | 308 | 327 | 334 | 327 | 314 | 336 | 352 | 343 | 321 | 341 | 349 | 327 | 310 | 326 | 336 | | Tele2 | 209 | 220 | 225 | 224 | 218 | 229 | 234 | 235 | 225 | 237 | 240 | 233 | 219 | 234 | 242 | | Rostelecom | 236 | 246 | 235 | 238 | 244 | 248 | 266 | 256 | 243 | 249 | 249 | 234 | 217 | 198 |  | | **ARPU growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 6.5% | 4.4% | 6.9% | 8.4% | 11.3% | 12.1% | 8.7% | 7.8% | 4.1% | 2.9% | 1.8% | 2.8% | 0.0% | -0.7% | 2.8% | | MegaFon | -0.3% | -0.6% | 0.0% | -0.3% | 1.4% | 1.3% | 3.1% | 5.4% | 5.4% | 5.0% | 3.6% | 2.1% | -0.3% | -3.3% | -2.6% | | Vimpelcom | 0.1% | -0.9% | -2.5% | -1.7% | 1.9% | 2.8% | 5.4% | 4.9% | 2.1% | 1.3% | -0.7% | -4.5% | -3.3% | -4.2% | -4.0% | | Tele2 | 0.4% | 1.4% | 2.7% | 2.3% | 4.3% | 4.1% | 4.0% | 4.9% | 3.2% | 3.5% | 2.8% | -0.8% | -2.7% | -1.3% | 0.6% | | Rostelecom | 6.3% | 9.8% | 0.9% | 3.0% | 3.5% | 1.0% | 13.2% | 7.8% | -0.5% | 0.4% | -6.5% | -8.8% | -10.9% | -20.4% | nm | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 53,374 | 57,517 | 57,612 | 59,462 | 58,936 | 64,411 | 65,458 | 68,776 | 69,979 | 71,318 | 73,140 | 76,894 | 73,812 | 78,669 | 81,353 | | MegaFon | 47,148 | 50,475 | 50,871 | 53,343 | 52,509 | 56,403 | 56,377 | 58,110 | 63,874 | 68,444 | 68,260 | 69,778 | 65,978 | 69,165 | 69,286 | | Vimpelcom | 34,339 | 39,617 | 42,196 | 44,308 | 42,994 | 46,605 | 47,342 | 48,847 | 46,443 | 49,729 | 50,112 | 50,328 | 47,986 | 51,711 | 52,988 | | Tele2 | 12,855 | 14,103 | 14,433 | 15,198 | 15,341 | 16,732 | 16,952 | 17,911 | 17,783 | 18,747 | 18,390 | 18,878 | 18,547 | 21,880 | 25,969 | | **Total** | **147,716** | **161,711** | **165,112** | **172,310** | **169,781** | **184,150** | **186,129** | **193,643** | **198,080** | **208,238** | **209,902** | **215,877** | **206,323** | **221,426** | **229,596** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 21.8% | 20.4% | 13.2% | 8.5% | 10.4% | 12.0% | 13.6% | 15.7% | 12.5% | 10.6% | 11.8% | 11.7% | 5.5% | 10.3% | 11.2% | | MegaFon | 13.4% | 10.0% | 8.8% | 7.9% | 11.4% | 11.7% | 10.8% | 8.9% | 5.2% | 4.5% | 4.1% | 2.4% | 3.3% | 1.1% | 1.5% | | Vimpelcom | 9.9% | 17.9% | 23.6% | 24.8% | 25.2% | 17.6% | 12.2% | 10.2% | 8.0% | 6.7% | 5.9% | 3.0% | 3.3% | 4.0% | 5.7% | | Tele2 | 29.3% | 25.9% | 22.9% | 17.9% | 19.3% | 18.6% | 17.5% | 17.9% | 15.9% | 12.0% | 8.5% | 5.4% | 4.3% | 16.7% | 41.2% | | **Total** | **16.7%** | **16.8%** | **15.0%** | **12.9%** | **14.9%** | **13.9%** | **12.7%** | **12.4%** | **16.7%** | **13.1%** | **12.8%** | **11.5%** | **4.2%** | **6.3%** | **9.4%** | | **Total Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | MTS | 12.0% | 11.3% | 11.9% | 12.3% | 11.3% | 10.5% | 10.3% | 11.0% | 10.8% | 9.1% | 8.9% | 9.8% | 10.1% | 10.9% | 9.2% | | Vimpelcom | 14.6% | 14.9% | 16.0% | 17.0% | 17.0% | 15.0% | 15.0% | 16.0% | 15.0% | 14.0% | 15.0% | 18.2% | 17.1% | 13.4% | 14.5% | | Tele2 | 7% | 7% | 8% | 9% | 8% | 7% | 8% | 9% |  |  |  |  |  |  |  | | **EBITDA, RUBm** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Tele2 | 4251 | 4984 | 5456 | 5609 | 4,700 | 5,400 | 5,800 | 5,800 | 5,600 | 5,900 | 6,500 | 6,200 | 6,100 | 6,700 | 6,600 | |
| Source: Citi Research and Company Reports |

South Africa

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| --- |
| Figure 397. South Africa Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **South Africa** | **Mar-11** | **Jun-11** | **Sep-11** | **Dec-11** | **Mar-12** | **Jun-12** | **Sep-12** | **Dec-12** | **Mar-13** | **Jun-13** | **Sep-13** | **Dec-13** | **Mar-14** | **Jun-14** | **Sep-14** | | **Service Revenue (Rand mn)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 7,800 | 7,667 | 8,190 | 8,729 | 8,296 | 8,434 | 8,736 | 9,012 | 8,358 | 7,897 | 7,692 | 8,278 | 7,223 | 7,039 | 6,958 | | Vodacom | 11,863 | 11,558 | 11,947 | 12,755 | 12,167 | 11,769 | 12,031 | 12,532 | 11,902 | 11,678 | 12,059 | 12,587 | 11992 | 11442 | 11,995 | | **Total** | **19,663** | **19,225** | **20,137** | **21,484** | **20,463** | **20,203** | **20,767** | **21,544** | **20,260** | **19,575** | **19,751** | **20,865** | **19,215** | **18,481** | **18,953** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 3.3% | 2.3% | 3.0% | 4.6% | 6.4% | 10.0% | 6.7% | 3.2% | 0.7% | -6.4% | -8.5% | -3.9% | -8.8% | -5.4% | -9.5% | | Vodacom | 5.2% | 5.4% | 4.0% | 4.8% | 2.6% | 1.8% | 0.7% | -1.7% | -2.2% | -0.8% | 0.2% | 0.4% | 0.8% | -2.0% | -0.5% | | **Total** | **4.4%** | **4.1%** | **3.6%** | **4.7%** | **4.1%** | **5.1%** | **3.1%** | **0.3%** | **-1.0%** | **-3.1%** | **-4.9%** | **-3.2%** | **-5.2%** | **-5.6%** | **-4.0%** | | **ARPU, Rand** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 136.7 | 131.1 | 133.9 | 135.3 | 123.5 | 121.5 | 121.3 | 120.4 | 110.6 | 105.4 | 102.1 | 108.4 | 95.2 | 93.6 | 89.3 | | Vodacom | 174.0 | 164.0 | 162.0 | 156.0 | 140.0 | 126.0 | 127.0 | 133.0 | 127.0 | 125.0 | 127.0 | 129.0 | 119.0 | 110.0 | 112.0 | | **Post-pay Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 3,434 | 3,555 | 3,688 | 3,834 | 4,004 | 4,195 | 4,346 | 4,498 | 4,636 | 4,759 | 4,875 | 5,005 | 5,192 | 5,458 | 5477 | | Vodacom | 5,126 | 5,320 | 5,439 | 4,660 | 4,687 | 4,687 | 4,703 | 4,762 | 4,786 | 4,794 | 4,808 | 4,841 | 4,794 | 4,793 | 4807 | | **Total** | **8,560** | **8,875** | **9,127** | **8,494** | **8,691** | **8,882** | **9,049** | **9,260** | **9,422** | **9,553** | **9,683** | **9,846** | **9,986** | **10,251** | **10,284** | | **Post-pay as % of Total Subs** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 17.9% | 18.0% | 17.6% | 17.4% | 17.6% | 17.8% | 17.7% | 17.7% | 18.6% | 19.0% | 19.3% | 19.5% | 20.9% | 21.5% | 20.5% | | Vodacom | 22.4% | 22.2% | 21.5% | 17.6% | 16.7% | 15.6% | 15.8% | 16.2% | 16.4% | 16.4% | 16.0% | 15.6% | 15.2% | 14.7% | 14.7% | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 3,823 | 3,919 | 4,097 | 4,322 | 4,566 | 4,719 | 5,187 | 5,241 | 5,138 | 5,095 | 5,350 | 5,425 | 4,703 | 4,663 |  | | Vodacom | 8,075 | 8,156 | 9,235 | 9,161 | 8,666 | 8,610 | 9,941 | 9,681 | 9,240 | 9,823 | 11,052 | 11,365 | 11,435 | 11,719 | 12,016 | | **Total** | **11,897** | **12,075** | **13,332** | **13,482** | **13,232** | **13,329** | **15,128** | **14,922** | **14,377** | **14,918** | **16,402** | **16,790** | **16,138** | **16,382** |  | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 8.9% | 8.2% | 11.9% | 10.8% | 19.4% | 20.4% | 26.6% | 21.3% | 12.5% | 8.0% | 3.1% | 3.5% | -8.5% | -8.5% |  | | Vodacom |  |  | 22.3% | 8.4% | 7.3% | 5.6% | 7.6% | 5.7% | 6.6% | 14.1% | 11.2% | 17.4% | 23.8% | 19.3% | 8.7% | | **Total** |  |  | **18.9%** | **9.2%** | **11.2%** | **10.4%** | **13.5%** | **10.7%** | **8.7%** | **11.9%** | **8.4%** | **12.5%** | **12.2%** | **9.8%** |  | | **Contract Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodacom | 9.7 | 8.5 | 8.9 | 11.9 | 9.6 | 10.4 | 11.8 | 11.3 | 11.0 | 11.6 | 12.6 | 11.4 | 11.8 | 10.4 | 9.9 | | **EBITDA, Rand mn** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Incumbent | 3,180 | 3,180 | 5,206 | 5,206 | 3,512 | 3,512 | 5,461 | 5,461 | 3,449 | 3,449 | 3,585 | 3,585 | 3,191 | 3,191 |  | | Vodacom | 5,214 | 4,916 | 4,916 | 5,711 | 5,711 | 5,395 | 5,395 | 5,810 | 5,810 | 5,711 | 5,711 | 5,833 | 5,833 | 5,422 | 5,422 | | **Total** | **8,394** | **8,096** | **10,122** | **10,917** | **9,223** | **8,906** | **10,855** | **11,270** | **9,258** | **9,159** | **9,296** | **9,418** | **9,024** | **8,613** |  | |
| Source: Citi Research and Company Reports |

Turkey

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| --- |
| Figure 398. Turkey Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Turkey** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, TL m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 1,840 | 1,975 | 2,174 | 2,042 | 1,984 | 2,149 | 2,300 | 2,290 | 2,201 | 2,318 | 2,365 | 2,240 | 2,205 | 2,296 | 2,477 | | Vodafone | 916 | 1,027 | 1,133 | 1,066 | 1,046 | 1,144 | 1,240 | 1,233 | 1,197 | 1,299 | 1,279 | 1,269 | 1,270 | 1,349 | 1,422 | | Turk Telekom | 670 | 738 | 789 | 778 | 767 | 828 | 888 | 897 | 895 | 974 | 945 | 909 | 924 | 1,008 | 1,097 | | **Total** | **3,426** | **3,740** | **4,096** | **3,886** | **3,797** | **4,121** | **4,428** | **4,420** | **4,292** | **4,591** | **4,589** | **4,419** | **4,399** | **4,653** | **4,997** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | -8.7% | -0.5% | 4.8% | 6.6% | 7.8% | 8.8% | 5.8% | 12.2% | 10.9% | 7.9% | 2.8% | -2.2% | 0.2% | -0.9% | 4.7% | | Vodafone | 3.2% | 32.8% | 24.2% | 20.2% | 14.2% | 11.4% | 9.4% | 15.6% | 14.4% | 13.5% | 3.2% | 3.0% | 6.1% | 3.9% | 11.2% | | Turk Telekom | 6.5% | 19.8% | 19.0% | 17.3% | 14.4% | 12.1% | 12.5% | 15.3% | 16.6% | 17.7% | 6.4% | 1.4% | 3.3% | 3.5% | 16.1% | | **Total** | **-3.0%** | **10.8%** | **12.2%** | **12.1%** | **10.8%** | **10.2%** | **8.1%** | **13.7%** | **13.0%** | **11.4%** | **3.6%** | **0.0%** | **2.5%** | **1.3%** | **8.9%** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 53.7% | 52.8% | 53.1% | 52.5% | 52.2% | 52.2% | 51.9% | 51.8% | 51.3% | 50.5% | 51.5% | 50.7% | 50.1% | 49.3% | 49.6% | | Vodafone | 26.7% | 27.4% | 27.7% | 27.4% | 27.6% | 27.8% | 28.0% | 27.9% | 27.9% | 28.3% | 27.9% | 28.7% | 28.9% | 29.0% | 28.5% | | Turk Telekom | 19.6% | 19.7% | 19.3% | 20.0% | 20.2% | 20.1% | 20.1% | 20.3% | 20.8% | 21.2% | 20.6% | 20.6% | 21.0% | 21.7% | 22.0% | | **Total Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 33,100 | 34,105 | 34,400 | 34,500 | 34,500 | 34,700 | 35,200 | 35,100 | 34,900 | 34,700 | 35,000 | 35,200 | 34,800 | 34,643 | 34,740 | | Vodafone | 16,823 | 17,505 | 17,828 | 17,991 | 18,247 | 18,352 | 18,713 | 18,928 | 19,157 | 19,289 | 19,602 | 19,667 | 19,754 | 20,062 | 20,603 | | Turk Telekom | 11,800 | 12,200 | 12,500 | 12,800 | 12,900 | 13,000 | 13,200 | 13,500 | 13,740 | 13,900 | 14,100 | 14,500 | 15,257 | 15,750 | 16,197 | | **Total** | **61,723** | **63,810** | **64,728** | **65,291** | **65,647** | **66,052** | **67,113** | **67,528** | **67,797** | **67,889** | **68,702** | **69,367** | **69,811** | **70,455** | **71,540** | | **% Post-pay Customers** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 31.4% | 31.5% | 32.0% | 33.9% | 34.8% | 36.3% | 36.6% | 37.6% | 38.7% | 39.8% | 39.4% | 39.8% | 40.5% | 41.9% | 42.6% | | Vodafone | 27.8% | 28.5% | 29.7% | 31.1% | 33.0% | 34.0% | 34.6% | 34.9% | 35.4% | 36.0% | 36.5% | 36.9% | 37.7% | 38.8% | 39.0% | | Turk Telekom | 42.4% | 44.3% | 44.0% | 43.8% | 44.2% | 44.6% | 44.7% | 44.4% | 43.7% | 43.9% | 44.0% | 44.8% | 45.6% | 45.4% | 46.9% | | **Total** | **32.5%** | **33.1%** | **33.7%** | **35.1%** | **36.1%** | **37.3%** | **37.7%** | **38.2%** | **38.8%** | **39.5%** | **39.5%** | **40.0%** | **40.8%** | **41.8%** | **42.5%** | | **ARPU, TL** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 18.4 | 19.6 | 21.1 | 19.7 | 19.2 | 20.7 | 22.0 | 21.7 | 21.0 | 22.3 | 22.7 | 21.3 | 21.0 | 22.1 | 23.8 | | Vodafone | 18.3 | 19.9 | 21.4 | 19.8 | 19.2 | 20.9 | 22.3 | 21.8 | 21.0 | 22.1 | 21.3 | 21.1 | 21.1 | 22.1 | 22.6 | | Turk Telekom | 19.1 | 20.5 | 21.3 | 20.5 | 19.9 | 21.3 | 22.6 | 22.4 | 21.9 | 23.5 | 22.5 | 21.2 | 20.7 | 21.7 | 22.9 | | **ARPU growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | -5.2% | 1.0% | 3.4% | 4.2% | 4.3% | 5.6% | 4.3% | 10.2% | 9.4% | 7.7% | 3.2% | -1.8% | 0.0% | -0.9% | 4.8% | | Vodafone | 22.8% | 23.6% | 15.1% | 11.2% | 5.2% | 5.0% | 4.2% | 10.1% | 9.1% | 5.7% | -4.5% | -3.2% | 0.5% | 0.0% | 6.1% | | Turk Telekom | 6.7% | 15.4% | 10.4% | 6.8% | 4.2% | 3.9% | 6.1% | 9.3% | 10.1% | 10.3% | -0.4% | -5.4% | -5.5% | -7.7% | 1.8% | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 19,231 | 22,168 | 22,843 | 22,811 | 22,958 | 26,029 | 26,996 | 25,740 | 25,074 | 28,115 | 28,396 | 27,115 | 26,733 | 29,114 | 29,973 | | Vodafone | 13,469 | 15,391 | 15,891 | 16,271 | 16,905 | 18,997 | 19,447 | 19,390 | 19,584 | 22,170 | 22,583 | 22,282 | 22,468 | 24,689 | 25,350 | | Turk Telekom | 9,828 | 11,124 | 11,604 | 11,996 | 12,336 | 13,578 | 13,767 | 13,845 | 14,003 | 15,664 | 15,750 | 15,817 | 16,640 | 19,358 | 19,959 | | **Total** | **42,528** | **48,683** | **50,338** | **51,078** | **52,199** | **58,604** | **60,209** | **58,976** | **58,661** | **65,949** | **66,729** | **65,214** | **65,841** | **73,161** | **75,282** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 20.2% | 26.8% | 14.0% | 15.8% | 19.4% | 17.4% | 18.2% | 12.8% | 9.2% | 8.0% | 5.2% | 5.3% | 6.6% | 3.6% | 5.6% | | Vodafone | 25.9% | 25.0% | 25.2% | 26.8% | 25.5% | 23.4% | 22.4% | 19.2% | 15.8% | 16.7% | 16.1% | 14.9% | 14.7% | 11.4% | 12.3% | | Turk Telekom | 12.2% | 19.6% | 27.5% | 29.3% | 25.5% | 22.1% | 18.6% | 15.4% | 13.5% | 15.4% | 14.4% | 14.2% | 18.8% | 23.6% | 26.7% | | **Total** | **19.9%** | **24.6%** | **20.3%** | **22.2%** | **22.7%** | **20.4%** | **19.6%** | **15.5%** | **12.4%** | **12.5%** | **10.8%** | **10.6%** | **12.2%** | **10.9%** | **12.8%** | | **Total Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell | 37.2% | 24.4% | 32.0% | 30.8% | 31.2% | 32.8% | 27.6% | 28.8% | 34.0% | 34.4% | 27.6% | 26.8% | 31.2% | 32.4% | 32.8% | | Vodafone | 48.8% | 29.0% | 41.5% | 40.0% | 41.1% | 43.4% | 35.1% | 36.5% | 41.0% | 40.9% | 31.7% | 34.4% | 37.4% | 36.9% | 36.1% | | **EBITDA, TL m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Turkcell |  |  |  |  | 581 | 643 | 784 | 702 | 647 | 698 | 817 | 670 | 647 | 709 | 830 | | Turk Telekom | 70 | 69 | 114 | 127 | 78 | 87 | 128 | 193 | 109 | 129 | 173 | 173 | 109 | 149 | 218 | |
| Source: Citi Research and Company Reports |

Ukraine

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| Figure 399. Ukraine Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Ukraine** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue (UAH mn)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom (as reported) | 2,720 | 2,958 | 3,114 | 2,972 | 2,825 | 2,963 | 3,226 | 3,139 | 2,836 | 2,879 | 3,008 | 2,856 | 2677 | 2750 | 2899 | | MTS (derived) | 1,987 | 2,170 | 2,412 | 2,254 | 2,168 | 2,328 | 2,570 | 2,303 | 2,310 | 2,434 | 2,568 | 2,373 | 2,381 | 2,526 | 2,780 | | Astelit/Turkcell (as reported) | 622 | 704 | 831 | 783 | 729.9 | 800 | 887 | 823 | 793 | 899 | 991 | 913 | 899.5 | 961 | 1145 | | **Total** | **5,328** | **5,832** | **6,356** | **6,009** | **5,723** | **6,090** | **6,683** | **6,265** | **5,939** | **6,212** | **6,567** | **6,142** | **5,958** | **6,237** | **6,823** | | **Service Revenue Growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom |  |  | 1.8% | 2.0% | 3.2% | -1.5% | 2.8% | 5.6% | 0.4% | -2.8% | -6.7% | -9.0% | -5.6% | -4.5% | -3.6% | | MTS | 7.7% | 5.1% | 8.4% | 9.9% | 9.1% | 7.3% | 6.6% | 2.2% | 6.6% | 4.5% | -0.1% | 3.1% | 3.1% | 3.8% | 8.2% | | Astelit/Turkcell | -6.2% | -0.8% | 23.8% | 20.8% | 17.4% | 13.6% | 6.8% | 5.2% | 8.6% | 12.4% | 11.7% | 10.9% | 13.5% | 6.9% | 15.5% | | **Total** |  |  | **5.4%** | **5.6%** | **7.4%** | **4.4%** | **5.1%** | **4.3%** | **3.8%** | **2.0%** | **-1.7%** | **-2.0%** | **0.3%** | **0.4%** | **3.9%** | | **Service Revenue Market Share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom | 51.0% | 50.7% | 49.0% | 49.5% | 49.4% | 48.6% | 48.3% | 50.1% | 47.8% | 46.3% | 45.8% | 46.5% | 44.9% | 44.1% | 42.5% | | MTS | 37.3% | 37.2% | 37.9% | 37.5% | 37.9% | 38.2% | 38.5% | 36.8% | 38.9% | 39.2% | 39.1% | 38.6% | 40.0% | 40.5% | 40.7% | | Astelit/Turkcell | 11.7% | 12.1% | 13.1% | 13.0% | 12.8% | 13.1% | 13.3% | 13.1% | 13.3% | 14.5% | 15.1% | 14.9% | 15.1% | 15.4% | 16.8% | | **Total Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom | 23,831 | 23,340 | 23,524 | 23,210 | 23,821 | 24,122 | 24,532 | 25,056 | 26,323 | 25,622 | 25,905 | 25,756 | 25563 | 25351 | 26329 | | MTS | 18,500 | 18,800 | 19,300 | 19,500 | 19,400 | 19,346 | 19,800 | 20,424 | 19,800 | 20,400 | 21,300 | 21,500 | 21,700 | 22308 | 22733 | | Astelit/Turkcell | 6,100 | 6,400 | 7,100 | 7,000 | 7,100 | 7,390 | 8,154 | 8,000 | 8,200 | 8,600 | 9,400 | 9,200 | 9300 | 9500 | 10600 | | **Total** | **48,431** | **48,540** | **49,924** | **49,710** | **50,321** | **50,858** | **52,486** | **53,480** | **54,323** | **54,622** | **56,605** | **56,456** | **56,563** | **57,159** | **59,662** | | **ARPU, UAH** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom | 37.6 | 41.8 | 44.3 | 42.4 | 39.5 | 40.5 | 43.4 | 41.7 | 36.5 | 36.5 | 38.2 | 36.5 | 34.6 | 35.7 | 37 | | MTS | 36 | 38.8 | 42.2 | 38.7 | 37.2 | 40.1 | 43.8 | 38.2 | 39.3 | 40.6 | 41.0 | 37.0 | 36.8 | 38.3 | 41 | | Astelit/Turkcell | 33.9 | 37.5 | 42.0 | 37.4 | 34.2 | 36.8 | 38.0 | 34.0 | 32.6 | 36.3 | 36.4 | 32.8 | 32.9 | 34.6 | 37.9 | | **ARPU growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom |  |  |  |  | 5.1% | -3.1% | -2.0% | -1.7% | -7.6% | -9.9% | -12.0% | -12.6% | -5.2% | -2.2% | -3.1% | | MTS |  |  |  |  | 3.1% | 3.3% | 3.7% | -1.4% | 0.6% | -4.3% | -11.1% | -8.1% | -6.6% | -5.8% | 0.3% | | Astelit/Turkcell |  |  |  |  | 0.7% | -1.7% | -9.5% | -9.3% | -4.6% | -1.2% | -4.3% | -3.5% | 1.0% | -4.9% | 4.1% | | **Call Volumes, mn min/qtr** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom | 33,381 | 33,998 | 34,705 | 35,373 | 35,936 | 37,000 | 37,527 | 38,061 | 37,270 | 37,883 | 38,413 | 39,059 | 38,335 | 38,644 | 40,078 | | MTS | 31,082 | 32,787 | 33,490 | 34,454 | 35,068 | 35,511 | 35,818 | 36,322 | 38,495 | 37,085 | 37,030 | 37,621 | 37,130 | 37,957 | 32,633 | | Astelit/Turkcell | 4,000 | 3,827 | 3,977 | 4,118 | 4,137 | 4,191 | 4,299 | 4,471 | 4,505 | 4,647 | 4,698 | 4,799 | 4,637 | 4,760 | 5,068 | | **Total** | **68,464** | **70,612** | **72,172** | **73,945** | **75,142** | **76,701** | **77,645** | **78,854** | **80,270** | **79,615** | **80,141** | **81,479** | **80,102** | **81,361** | **77,779** | | **Call Volume growth, yoy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom |  |  |  |  | 7.7% | 8.8% | 8.1% | 7.6% | 3.7% | 2.4% | 2.4% | 2.6% | 2.9% | 2.0% | 4.3% | | MTS |  |  |  |  | 12.8% | 8.3% | 7.0% | 5.4% | 5.7% | 3.7% | 3.4% | 3.7% | -3.5% | 2.4% | -11.9% | | Astelit/Turkcell |  |  |  |  | 3.4% | 9.5% | 8.1% | 8.6% | 8.9% | 10.9% | 9.3% | 7.3% | 2.9% | 2.4% | 7.9% | | **Total** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **Total Churn, % p.a** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom | 6.9% | 7.8% | 6.0% | 8.3% | 6.1% | 7.9% | 7.7% | 8.0% | 6.9% | 11.4% | 8.0% | 8.4% | 7.3% | 6.4% | 4.8% | | MTS | 7.6% | 7.0% | 8.1% | 8.1% | 8.5% | 7.7% | 9.0% | 5.8% | 7.2% | 5.8% | 6.8% | 7.4% | 6.2% | 4.5% | 4.6% | | Astelit/Turkcell |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | **EBITDA, UAHm** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Kyivstar/ Vimpelcom (consolidated) |  |  |  |  | 1,574 | 1,630 | 1,849 | 1,814 | 1,550 | 1,536 | 1,666 | 1,487 | 1430 | 1349 | 1436 | | MTS | 919 | 1,083 | 1,221 | 1147 | 1060 | 1,244 | 1,416 | 1,200 | 1,227 | 1,317 | 1,355 | 1276 | 1236 | 1276 | 1210 | | Astelit/Turkcell | 149 | 188 | 214 | 199 | 199 | 242 | 253 | 221 | 224 | 291 | 305 | 281 | 287 | 278 | 362 | |
| Source: Citi Research and Company Reports |

International

Brazil

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| --- |
| Figure 400. Brazil Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Brazil** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **2Q14** | | **Service Revenue, R$m** | | | | | |  |  |  |  |  |  |  |  |  |  | | VIVO | 4,367 | 4,470 | 4,698 | 5,108 | 4,924 | 4,960 | 5,078 | 5,474 | 5,271 | 5,219 | 5,439 | 5,764 | 5,444 | 5,532 | 5,629 | | TIM Brasil | 3,240 | 3,510 | 3,648 | 3,957 | 3,768 | 3,735 | 3,920 | 4,172 | 3,920 | 3,901 | 4,047 | 4,213 | 3,977 | 3,842 | 3,889 | | Oi | 1,863 | 2,083 | 2,071 | 2,136 | 2,081 | 2,094 | 2,170 | 2,267 | 2,168 | 2,127 | 2,232 | 2,228 | 2,053 | 2,023 | 1,978 | | Claro | 2,951 | 3,005 | 3,078 | 3,131 | 3,057 | 2,914 | 2,904 | 2,995 | 2,936 | 2,939 | 2,957 | 3,186 | 3,048 | 3,000 | 3,057 | | **Total** | **12,421** | **13,069** | **13,495** | **14,332** | **13,831** | **13,703** | **14,072** | **14,908** | **14,295** | **14,186** | **14,675** | **15,391** | **14,523** | **14,398** | **14,554** | | **Service Revenue Growth, yoy** | | | | | |  |  |  |  |  |  |  |  |  |  | | VIVO |  | 15.1% | 19.3% | 14.1% | 12.8% | 10.9% | 8.1% | 7.2% | 7.0% | 5.2% | 7.1% | 5.3% | 3.3% | 6.0% | 3.5% | | TIM Brasil | 7.8% | 11.9% | 13.8% | 15.6% | 16.3% | 6.4% | 7.4% | 5.4% | 4.0% | 4.5% | 3.3% | 1.0% | 1.5% | (1.5%) | (3.9%) | | Oi | (1.7%) | 6.9% | 4.4% | 2.2% | 11.7% | 0.6% | 4.8% | 6.2% | 4.2% | 1.5% | 2.9% | (1.8%) | (5.3%) | (4.9%) | (11.4%) | | Claro | 4.8% | 3.7% | 5.0% | 4.6% | 3.6% | (3.0%) | (5.7%) | (4.3%) | (4.0%) | 0.9% | 1.8% | 6.4% | 3.8% | 2.1% | 3.4% | | **Total** | **7.1%** | **10.1%** | **11.9%** | **10.4%** | **11.3%** | **4.9%** | **4.3%** | **4.0%** | **3.4%** | **3.5%** | **4.3%** | **3.2%** | **1.6%** | **1.5%** | **(0.8%)** | | **Service Revenue Market Share** | | | | | |  |  |  |  |  |  |  |  |  |  | | VIVO | 35.2% | 34.2% | 34.8% | 35.6% | 35.6% | 36.2% | 36.1% | 36.7% | 36.9% | 36.8% | 37.1% | 37.5% | 37.5% | 38.4% | 38.7% | | TIM Brasil | 26.1% | 26.9% | 27.0% | 27.6% | 27.2% | 27.3% | 27.9% | 28.0% | 27.4% | 27.5% | 27.6% | 27.4% | 27.4% | 26.7% | 26.7% | | Oi | 15.0% | 15.9% | 15.3% | 14.9% | 15.0% | 15.3% | 15.4% | 15.2% | 15.2% | 15.0% | 15.2% | 14.5% | 14.1% | 14.1% | 13.6% | | Claro | 23.8% | 23.0% | 22.8% | 21.8% | 22.1% | 21.3% | 20.6% | 20.1% | 20.5% | 20.7% | 20.1% | 20.7% | 21.0% | 20.8% | 21.0% | | **Post-pay Customers, 000s** | | | | | |  |  |  |  |  |  |  |  |  |  | | VIVO | 13,319 | 14,239 | 15,359 | 16,116 | 16,621 | 17,177 | 17,955 | 18,802 | 19,518 | 20,685 | 22,138 | 23,688 | 24,908 | 26,162 | 27,177 | | TIM Brasil | 7,688 | 8,005 | 8,636 | 9,291 | 9,638 | 9,986 | 10,247 | 10,702 | 10,910 | 11,376 | 11,923 | 12,269 | 12,200 | 12,208 | 12,213 | | Oi | 4,660 | 4,823 | 5,141 | 5,285 | 5,570 | 5,791 | 6,085 | 6,472 | 6,664 | 6,661 | 6,662 | 6,708 | 6,729 | 6,817 | 6,986 | | Claro | 10,930 | 11,555 | 12,072 | 12,669 | 12,864 | 12,662 | 12,732 | 13,069 | 13,416 | 13,707 | 13,871 | 14,318 | 14,605 | 14,812 | 15,221 | | **Total Customers, 000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | VIVO | 62,061 | 64,049 | 67,038 | 71,554 | 74,784 | 75,720 | 76,806 | 76,137 | 75,988 | 76,200 | 76,614 | 77,240 | 78,461 | 79,351 | 79,817 | | TIM Brasil | 52,836 | 55,512 | 59,197 | 64,070 | 67,204 | 68,860 | 69,394 | 70,362 | 71,218 | 72,181 | 72,878 | 73,417 | 73,890 | 74,174 | 74,848 | | Oi | 39,294 | 39,260 | 40,798 | 43,263 | 44,106 | 45,198 | 45,568 | 46,305 | 46,569 | 46,896 | 47,337 | 47,727 | 48,145 | 48,618 | 48,976 | | Claro | 53,438 | 55,534 | 57,514 | 60,380 | 61,596 | 62,966 | 63,447 | 65,238 | 66,308 | 66,472 | 67,432 | 68,704 | 68,749 | 68,776 | 69,636 | | **Call Volumes, mn min/qtr** | | | | | |  |  |  |  |  |  |  |  |  |  | | VIVO | 20,589 | 22,152 | 24,395 | 24,944 | 26,221 | 27,420 | 29,252 | 31,062 | 29,638 |  |  |  |  |  |  | | TIM Brasil | 19,628 | 20,640 | 22,334 | 23,852 | 24,897 | 25,981 | 28,722 | 31,466 | 30,772 | 31,758 | 32,638 | 32,697 | 30,934 | 30,427 | 30,400 | | Claro | 14,185 | 15,038 | 18,144 | 19,276 | 19,211 | 19,992 | 23,134 | 24,321 | 23,876 | 23,701 | 26,714 | 27,976 | 25,154 | 24,136 | 25,329 | | **Call Volume growth** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | VIVO |  |  |  |  | 27.4% | 23.8% | 19.9% | 24.5% | 13.0% |  |  |  |  |  |  | | TIM Brasil | 56.8% | 43.8% | 32.5% | 25.8% | 26.8% | 25.9% | 28.6% | 31.9% | 23.6% | 22.2% | 13.6% | 3.9% | 0.5% | (4.2%) | (6.9%) | | Claro | 12.8% | 16.6% | 26.4% | 29.3% | 35.4% | 32.9% | 27.5% | 26.2% | 24.3% | 18.6% | 15.5% | 15.0% | 5.4% | 1.8% | (5.2%) | | **Churn, % monthly** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | VIVO | 2.7% | 2.8% | 2.9% | 3.0% | 2.5% | 3.8% | 3.5% | 4.1% | 3.5% | 3.8% | 3.9% | 4.1% | 3.4% | 3.5% | 3.7% | | Claro | 3.3% | 3.5% | 4.0% | 4.1% | 3.7% | 3.9% | 3.4% | 3.7% | 3.1% | 3.5% | 3.1% | 3.6% | 3.2% | 3.4% | 3.3% | |
| Source: Citi Research and Company Reports |

India

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| --- |
| Figure 401. India Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **India** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **3Q14** | | **Service Revenue, INRbn** | | | | | |  |  |  |  |  |  |  |  |  |  | | Bharti | 92 | 94 | 94 | 98 | 101 | 102 | 99 | 102 | 107 | 114 | 111 | 115 | 119 | 126 | 125 | | Vodafone | 66 | 70 | 72 | 76 | 80 | 82 | 80 | 82 | 87 | 90 | 89 | 91 | 94 | 97 | 96 | | Idea | 41 | 44 | 45 | 49 | 53 | 54 | 52 | 54 | 59 | 64 | 62 | 65 | 69 | 75 | 75 | | RCom | 42 | 43 | 44 | 45 | 45 | 45 | 44 | 45 | 46 | 48 | 47 | 47 | 44 | 45 | 45 | | **Total** | **241** | **252** | **255** | **267** | **279** | **283** | **275** | **284** | **299** | **317** | **309** | **318** | **326** | **343** | **341** | | **Service Revenue Growth, yoy** | | | | | |  |  |  |  |  |  |  |  |  |  | | Bharti | 12.6% | 10.8% | 11.1% | 11.5% | 10.4% | 8.1% | 5.8% | 4.5% | 5.9% | 11.5% | 11.5% | 12.3% | 10.9% | 10.7% | 12.7% | | Vodafone | 16.9% | 16.4% | 21.1% | 20.0% | 20.7% | 17.3% | 10.8% | 7.9% | 8.3% | 10.0% | 11.3% | 11.6% | 8.5% | 7.8% | 8.4% | | Idea | 35.3% | 28.0% | 26.7% | 25.3% | 27.1% | 21.4% | 13.8% | 10.3% | 12.2% | 19.6% | 20.1% | 19.3% | 16.3% | 15.9% | 20.3% | | RCom | 2.5% | 3.7% | 5.4% | 10.2% | 7.3% | 4.9% | 0.7% | 1.5% | 3.0% | 6.4% | 5.6% | 4.5% | (4.5%) | (5.8%) | (2.7%) | | **Total** | **15.1%** | **13.7%** | **15.2%** | **16.0%** | **15.6%** | **12.5%** | **7.7%** | **6.0%** | **7.3%** | **11.8%** | **12.1%** | **12.2%** | **8.9%** | **8.4%** | **10.6%** | | **Service Revenue Market Share** | | | | | |  |  |  |  |  |  |  |  |  |  | | Bharti | 26.1% | 26.2% | 25.5% | 25.8% | 25.8% | 25.4% | 27.6% | 28.0% | 28.6% | 28.5% | 28.3% | 28.6% | 29.1% | 29.6% | 29.5% | | Vodafone | 18.9% | 19.4% | 19.6% | 20.0% | 20.5% | 20.4% | 22.3% | 22.5% | 23.2% | 22.6% | 22.8% | 22.8% | 23.1% | 22.9% | 22.8% | | Idea | 11.8% | 12.3% | 12.3% | 13.0% | 13.4% | 13.4% | 14.4% | 14.9% | 15.7% | 16.1% | 15.9% | 16.2% | 16.8% | 17.5% | 17.6% | | RCom | 12.0% | 11.9% | 12.0% | 11.8% | 11.5% | 11.3% | 12.3% | 12.4% | 12.4% | 12.1% | 12.0% | 11.8% | 10.8% | 10.6% | 10.7% | | **Post-pay Customers, 000s** | | | | | |  |  |  |  |  |  |  |  |  |  | | Bharti | 6,002 | 6,260 | 6,393 | 6,499 | 6,707 | 7,117 | 7,387 | 7,587 | 9,185 | 9,146 | 9,576 | 9,330 | 8,262 | 10,584 | 8,915 | | Vodafone | 6,355 | 6,556 | 6,825 | 7,092 | 7,463 | 7,682 | 7,947 | 8,259 | 8,585 | 8,992 | 9,644 | 10,089 | 10,493 | 10,993 | 11,474 | | Idea | 3,222 | 3,329 | 3,507 | 3,618 | 3,945 | 4,102 | 4,389 | 4,442 | 4,742 | 5,000 | 5,342 | 5,534 | 5,839 | 5,838 | 6,175 | | RCom | 4,072 | 4,155 | 4,413 | 4,352 | 4,438 | 4,483 | 4,450 | 4,386 | 4,427 | 4,401 | 4,069 | 4,859 | 5,269 | 5,395 | 4,118 | | **Total Customers, 000000s** | | | | | |  |  |  |  |  |  |  |  |  |  | | Bharti | 162 | 169 | 173 | 176 | 181 | 187 | 186 | 182 | 188 | 191 | 193 | 199 | 206 | 209 | 212 | | Vodafone | 135 | 142 | 145 | 148 | 150 | 154 | 153 | 147 | 152 | 155 | 156 | 160 | 167 | 170 | 174 | | Idea | 90 | 95 | 100 | 106 | 113 | 117 | 116 | 114 | 122 | 125 | 127 | 129 | 136 | 139 | 144 | | RCom | 136 | 143 | 147 | 150 | 153 | 155 | 135 | 119 | 123 | 126 | 116 | 119 | 112 | 110 | 111 | | **Total** | **804** | **844** | **866** | **887** | **914** | **929** | **901** | **860** | **861** | **870** | **868** | **886** | **905** | **915** | **930** | | **Call Volumes, mn min/qtr** | | | | | |  |  |  |  |  |  |  |  |  |  | | Bharti | 212 | 221 | 217 | 219 | 231 | 239 | 233 | 240 | 253 | 259 | 252 | 255 | 265 | 271 | 264 | | Vodafone | 119 | 128 | 128 | 133 | 142 | 148 | 144 | 148 | 155 | 160 | 156 | 158 | 164 | 170 | 166 | | Idea | 102 | 108 | 107 | 114 | 125 | 131 | 125 | 132 | 143 | 147 | 139 | 144 | 158 | 165 | 163 | | RCom | 94 | 98 | 99 | 100 | 103 | 105 | 102 | 103 | 105 | 106 | 101 | 101 | 102 | 104 | 102 | | **Total** | **528** | **555** | **550** | **567** | **601** | **623** | **605** | **623** | **657** | **671** | **647** | **659** | **689** | **710** | **695** | | **Call Volume growth** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Bharti | 22.5% | 16.3% | 14.2% | 10.4% | 8.9% | 8.2% | 7.5% | 9.5% | 9.5% | 8.1% | 7.9% | 6.4% | 4.7% | 4.7% | 5.0% | | Vodafone | 27.3% | 23.7% | 21.8% | 20.4% | 19.1% | 16.0% | 12.7% | 11.1% | 9.0% | 7.8% | 8.0% | 7.1% | 6.2% | 6.3% | 6.6% | | Idea | 55.1% | 37.2% | 26.1% | 21.9% | 22.1% | 20.7% | 17.5% | 15.5% | 15.1% | 12.6% | 11.1% | 9.2% | 9.8% | 12.3% | 16.9% | | RCom | 1.0% | 3.3% | 4.7% | 9.1% | 9.2% | 7.9% | 3.6% | 3.2% | 2.1% | 0.3% | (1.9%) | (1.5%) | (2.9%) | (1.8%) | 1.4% | | **Total** | **23.8%** | **18.8%** | **16.1%** | **14.6%** | **13.8%** | **12.4%** | **9.9%** | **10.0%** | **9.3%** | **7.7%** | **6.9%** | **5.8%** | **5.0%** | **5.7%** | **7.4%** | | **Churn, % monthly** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Bharti | 7.6% | 6.4% | 7.2% | 7.9% | 8.8% | 8.8% | 8.5% | 5.9% | 3.2% | 3.2% | 3.2% | 2.7% | 2.4% | 2.7% | 3.1% | | Vodafone | 4.2% | 4.8% | 5.3% | 5.8% | 6.5% | 6.1% | 6.3% | 5.3% | 3.9% | 4.1% | 4.4% | 3.8% | 3.6% | 4.1% | 4.5% | | Idea | 10.7% | 9.6% | 9.9% | 10.4% | 9.9% | 9.9% | 10.1% | 6.9% | 4.3% | 5.1% | 5.3% | 5.6% | 4.2% | 4.6% | 5.0% | | RCom | 4.1% | 4.0% | 4.0% | 4.2% | 4.5% | 5.0% | 10.0% | 7.3% | 4.8% | 4.6% | 5.9% | 3.4% | 5.5% | 3.6% | 4.3% | | **Data Revenue (excl messaging) % Service Revenue** | | | | | | | |  |  |  |  |  |  |  |  | | Bharti |  | 3.2% | 3.1% | 3.5% | 4.1% | 4.3% | 5.2% | 5.7% | 6.5% | 8.2% | 9.4% | 10.6% | 11.5% | 12.4% | 14.5% | | Vodafone | 7.3% | 8.4% | 8.4% | 8.1% | 8.0% | 8.6% | 9.2% | 9.8% | 10.3% | 11.3% | 11.7% | 11.8% | 12.7% | 13.6% | 14.1% | | Idea |  |  |  |  |  | 4.5% | 5.4% | 5.7% | 6.6% | 7.2% | 8.7% | 9.5% | 10.1% | 11.5% | 14.0% | | **EBITDA, INRm** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vodafone | 17,803 | 19,602 | 19,602 | 23,310 | 23,310 | 24,900 | 24,900 | 28,369 | 28,369 | 32,678 | 32,678 |  |  |  |  | | Idea | 9,144 | 10,666 | 10,436 | 11,986 | 12,070 | 12,889 | 12,615 | 13,173 | 15,037 | 18,436 | 17,430 | 18,135 | 19,881 | 22,664 | 22,394 | | **Capex, INRm** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Idea | 15,438 | 10,214 | 11,099 | 12,378 | 7,866 | 7,260 | 7,352 | 24,919 | 13,874 | 3,298 | 8,838 | 10,201 |  |  |  | |
| Source: Citi Research and Company Reports |

US

|  |
| --- |
| Figure 402. US Mobile Market Information |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **US** | **1Q11** | **2Q11** | **3Q11** | **4Q11** | **1Q12** | **2Q12** | **3Q12** | **4Q12** | **1Q13** | **2Q13** | **3Q13** | **4Q13** | **1Q14** | **2Q14** | **2Q14** | | **Service Revenue, $m** | | | | | |  |  |  |  |  |  |  |  |  |  | | AT&T | 13,961 | 14,157 | 14,261 | 14,347 | 14,566 | 14,765 | 14,906 | 14,971 | 15,062 | 15,370 | 15,460 | 15,660 | 15,387 | 15,148 | 15,423 | | Verizon | 14,311 | 14,707 | 15,033 | 15,106 | 15,410 | 15,776 | 16,154 | 16,393 | 16,728 | 17,078 | 17,516 | 17,711 | 17,987 | 18,078 | 18,356 | | TMUS | 5,659 | 5,713 | 5,777 | 5,679 | 5,603 | 5,540 | 5,383 | 5,227 | 5,106 | 5,122 | 5,138 | 5,169 | 5,337 | 5,527 | 5,684 | | Sprint | 6,718 | 6,762 | 6,900 | 7,010 | 7,215 | 7,314 | 7,292 | 7,265 | 7,276 | 7,358 | 7,307 | 7,322 | 7,255 | 7,087 | 6,890 | | **Total** | **41,634** | **42,341** | **43,008** | **43,172** | **43,818** | **44,425** | **44,771** | **44,865** | **45,168** | **45,839** | **46,283** | **46,687** | **46,820** | **46,683** | **47,204** | | **Service Revenue Growth, yoy** | | | | | |  |  |  |  |  |  |  |  |  |  | | AT&T | 8.6% | 7.4% | 4.3% | 4.0% | 4.3% | 4.3% | 4.5% | 4.3% | 3.4% | 4.1% | 3.7% | 4.6% | 2.2% | (1.4%) | (0.2%) | | Verizon | 6.3% | 6.6% | 6.1% | 6.4% | 7.7% | 7.3% | 7.5% | 8.5% | 8.6% | 8.3% | 8.4% | 8.0% | 7.5% | 5.9% | 4.8% | | TMUS | 3.6% | 2.1% | 2.6% | 0.6% | (1.0%) | (3.0%) | (6.8%) | (8.0%) | (8.9%) | (7.5%) | (4.6%) | (1.1%) | 4.5% | 7.9% | 10.6% | | Sprint | 3.7% | 4.9% | 7.2% | 7.4% | 7.4% | 8.2% | 5.7% | 3.6% | 0.8% | 0.6% | 0.2% | 0.8% | (0.3%) | (3.7%) | (5.7%) | | **Total** | **6.1%** | **5.8%** | **5.2%** | **4.9%** | **5.2%** | **4.9%** | **4.1%** | **3.9%** | **3.1%** | **3.2%** | **3.4%** | **4.1%** | **3.7%** | **1.8%** | **2.0%** | | **Service Revenue Market Share** | | | | | |  |  |  |  |  |  |  |  |  |  | | AT&T | 33.5% | 33.4% | 33.2% | 33.2% | 33.2% | 33.2% | 33.3% | 33.4% | 33.3% | 33.5% | 33.4% | 33.5% | 32.9% | 32.4% | 32.7% | | Verizon | 34.4% | 34.7% | 35.0% | 35.0% | 35.2% | 35.5% | 36.1% | 36.5% | 37.0% | 37.3% | 37.8% | 37.9% | 38.4% | 38.7% | 38.9% | | TMUS | 13.6% | 13.5% | 13.4% | 13.2% | 12.8% | 12.5% | 12.0% | 11.7% | 11.3% | 11.2% | 11.1% | 11.1% | 11.4% | 11.8% | 12.0% | | Sprint | 16.1% | 16.0% | 16.0% | 16.2% | 16.5% | 16.5% | 16.3% | 16.2% | 16.1% | 16.1% | 15.8% | 15.7% | 15.5% | 15.2% | 14.6% | | **Post-pay Customers, 000s** | | | | | |  |  |  |  |  |  |  |  |  |  | | AT&T | 68,062 | 68,353 | 68,614 | 69,309 | 69,403 | 69,666 | 69,747 | 70,497 | 70,755 | *71,278* | 72,155 | 72,721 | 73,346 | *74,372* | *75,247* | | Verizon | 84,031 | 85,290 | 86,175 | 87,382 | 87,963 | 88,838 | 90,354 | 92,530 | 93,186 | 94,271 | 95,185 | 96,752 | 97,273 | 98,593 | 100,103 | | TMUS | 24,000 | 23,463 | 23,073 | 22,367 | 21,857 | 21,300 | 20,809 | 20,293 | 20,094 | 20,783 | 21,430 | 22,299 | 23,622 | 24,530 | 25,909 | | Sprint | 32,998 | 32,897 | 32,853 | 33,014 | 32,822 | 32,576 | 32,120 | 31,877 | 31,317 | 30,624 | 30,224 | 30,155 | 29,822 | 29,577 | 29,241 | | **Call Volumes, mn min/qtr** | | | | | |  |  |  |  |  |  |  |  |  |  | | AT&T | 276,386 | 305,572 | 313,119 | 321,170 | 310,679 | 341,395 | 347,424 | 351,255 | 336,744 | 368,242 | 375,136 | 380,437 | 373,204 | 417,371 | 425,629 | | Verizon | 210,288 | 220,952 | 220,640 | 237,254 | 222,392 | 233,310 | 233,821 | 253,193 | 237,826 | 249,550 | 249,684 | 268,915 | 252,009 | 264,469 | 264,873 | | **Call Volume growth** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | AT&T | 16.1% | 15.9% | 14.1% | 13.5% | 12.4% | 11.7% | 11.0% | 9.4% | 8.4% | 7.9% | 8.0% | 8.3% | 10.8% | 13.3% | 13.5% | | Verizon | 5.3% | 5.1% | 5.0% | 5.4% | 5.8% | 5.6% | 6.0% | 6.7% | 6.9% | 7.0% | 6.8% | 6.2% | 6.0% | 6.0% | 6.1% | | **Contract Churn, % monthly** | | | | | |  |  |  |  |  |  |  |  |  |  | | AT&T | 1.2% | 1.2% | 1.2% | 1.2% | 1.1% | 1.0% | 1.1% | 1.2% | 1.0% | 1.0% | 1.1% | 1.1% | 1.1% | 0.9% | 1.0% | | Verizon | 1.0% | 0.9% | 0.9% | 0.9% | 1.0% | 0.8% | 0.9% | 1.0% | 1.0% | 0.9% | 1.0% | 1.0% | 0.0% | 0.0% | 0.0% | | TMUS |  |  |  |  |  |  | 2.3% | 2.5% | 1.9% | 1.6% | 1.7% | 1.7% | 1.5% | 1.5% | 1.6% | | Sprint | 1.8% | 1.8% | 1.9% | 2.0% | 2.0% | 1.8% | 2.1% | 2.2% | 2.1% | 2.6% | 2.1% | 2.3% |  |  |  | | **EBITDA, $m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | AT&T | 5,536 | 5,901 | 6,313 | 4,183 | 6,158 | 6,763 | 6,200 | 4,474 | 6,511 | 6,521 | 6,498 | 5,861 | 6,984 | 6,458 | 6,653 | | Verizon | 6,250 | 6,670 | 7,189 | 6,380 | 7,135 | 7,724 | 8,084 | 6,785 | 8,424 | 8,511 | 8,946 | 8,318 | 9,379 | 9,092 | 9,094 | | TMUS | 1,452 | 1,614 | 1,753 | 1,743 | 1,537 | 1,815 | 1,689 | 1,297 | 1,469 | 1,265 | 1,344 | 1,239 | 1,078 | 1,429 | 1,316 | | Sprint | 1,283 | 1,102 | 1,214 | 668 | 1,052 | 1,299 | 1,118 | 678 | 1,395 | 1,294 | 1,206 | 1,053 | 1,837 | 1,793 | 1,370 | | **Capex, $m** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | AT&T | 2,298 | 2,511 | 2,520 | 2,858 | 2,324 | 2,345 | 2,709 | 3,417 | 2,296 | 3,033 | 3,060 | 2,802 | 3,082 | 3,480 | 2,636 | | Verizon | 2,735 | 2,667 | 1,784 | 1,787 | 1,885 | 2,048 | 2,133 | 2,791 | 1,992 | 2,278 | 2,450 | 2,705 | 2,554 | 2,771 | 2,483 | | TMUS | 946 | 960 | 971 | 803 | 898 | 729 | 924 | 1,166 | 1,230 | 1,111 | 1,017 | 882 | 947 | 940 | 1,131 | | Sprint | 523 | 600 | 718 | 833 | 766 | 1,063 | 1,421 | 1,832 | 1,761 | 1,771 | 1,733 | 1,766 | 930 | 1,276 | 1,354 | |
| Source: Citi Research and Company Reports |

# Deutsche Telekom AG

## Valuation

We base our €14.0 target price for DT on a DCF model which fades returns over the long term close to the cost of capital. The DCF uses a WACC of 7.4% and this and the other assumptions imply growth from year four of our forecasts into perpetuity of close to nil.

## Risks

Industry-specific risks to achieving our target price include concerns about competition, demand, regulation and technological obsolescence. The government remains a significant shareholder and will probably look to recommence reducing its shareholding at some stage. Nonetheless the company's investment programme and commitment to minimum returns on capital and cash returns to shareholders provides a solid basis for valuation. If the impact of these risk factors is more or less negative than we anticipate, then the share price could fail to reach or rise above our target price.

# Elisa Oyj

## Valuation

Our valuation of Elisa and €28 target price is based on a DCF with a 7.0% WACC and 1.2% perpetuity growth rate.

## Risks

We see the following risks to our investment case.

Elisa has stable operations and macro environment. 95% of Elisa's value is from Finland. There is upside risk from higher capital returns and Elisa may become an M&A target.

Downside risk: Telia could turn more aggressive in defending and growing its share in Finland, as it had tried to do from time to time in the past.

If the impact of these risk factors is more or less negative than we anticipate, then the share price could fail to reach or rise above our target price.

# KPN NV

## Valuation

We derive our €2.75 target price from a DCF-based SOP valuation. We value KPN's 20.5% stake in the combination of TEF De and KPN at the valuation implied by the market price of TEF De. We use a WACC of 8.0% and 1.0% perpetuity growth rate for the controlled assets.

## Risks

We see several particular risks that could impede the shares from achieving the target price: Cable could become more aggressive following several quarters of subdued growth; the entry of Tele2 in Dutch mobile could have a more negative impact on prices and market share than we anticipate. If the impact of these risk factors is more or less negative than we anticipate, then the share price could fail to reach or rise above our target price.

# Orange

## Valuation

Our target price of €15 is based on a SOP with France mobile business valued at 6.0x 2014E EBITDA, fixed line at 6.5x, Enterprise at 5.0x EBITDA, Spain at 6.5x EBITDA, while Poland, Belgium and Egypt are valued at market prices.

## Risks

On the positive side, we the potential for recently healthier customer momentum to feed into better earnings and cash flow momentum in due course, and the easier regulatory environment could be constructive. On the downside, pricing remains under pressure and a route to consolidation in French mobile is not yet apparent and may be met with tough competition remedies if attempted. If the impact of these risk factors is more or less negative than we anticipate, then the share price could fail to reach or rise above our target price.

# Swisscom AG

## Valuation

Our 12 month target price of SFr640 is based on a DCF methodology with returns fading close to the cost of capital in the long term, which we cross check with a multiples-based approach. We use a WACC of 6.5% and a 1.5% perpetuity growth rate.

## Risks

Industry specific risks include concerns about over-capitalisation, weak demand, regulatory risks and the risk of new technology establishing cost advantages over current technology. Swisscom’s domestic operations are amongst the lowest risk assets in the European telecom sector, in our view. However, Fastweb contributes a more risky income stream, especially as the Italian regulatory environment is less certain and there is tougher competition than in Switzerland. Additionally the company may engage in risky M&A. Nonetheless, Swisscom has a strong Group balance sheet, and in Switzerland faces moderate competition and a fairly benign regulatory environment. If the impact of these risk factors is more or less negative than we anticipate, then the share price could fail to reach or rise above our target price.

# Telekom Austria

## Valuation

We set our target price at €6.1 for TKA based on a DCF-model. For our valuation metod, we value each division, rather than looking at the company as a whole due to divisional variations. Our DCF valuation fades the ROCE close to the cost of capital in the longer term. We use a WACC of 7% for Domestic business while a WACC of 13% and 11% for Belarus and Bulgarian businesses respectively. We valued FYROM and Serbia on EV/Subscriber basis due to the early stage of development of the business.

## Risks

The biggest risk to the stock is the uncertainty surrounding the emerging market economies (c.40% of group value) and TKA's potential expansion into cable in Serbia and Slovenia. Croatian data roaming regulation is a further risk. Slowing overall telecom market growth and regulation (encouraging new fixed-line and mobile entrants) present further downside risk to financial forecasts. If the impact of these risk factors is more or less negative than we anticipate, then the share price could fail to reach or rise above our target price.

# Inmarsat plc

## Valuation

Our 12-month target price of £8.70 is based on a DCF methodology. Our DCF model uses a WACC of 8% and assumes a terminal growth rate of 2%.

## Risks

Upside risks to our target price include greater-than-expected penetration of IsatPhone Pro, or less than expected cannibalisation of legacy Maritime revenue by GX. To the downside, GX take up may be slower than we expect or the cost of establishing the platform in the market may be greater than we are forecasting. There is persistent press speculation that the company could become a target for corporate activity. If the impact of these risk factors is more or less positive than we anticipate, then the share price reaction could be different than we expect.

# Telecity Group Plc

## Valuation

Telecity's cash-generative nature means we continue to derive our TP using a DCF valuation. Applying a WACC of 8.7% and a terminal growth rate of 3%, we derive a target price of 920p.

## Risks

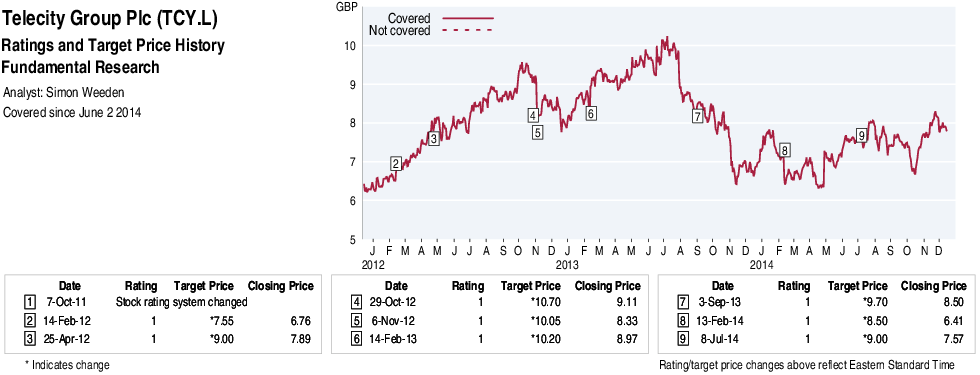
Our assumptions are subject to risks as the market has been volatile in the past. We believe the most material risks are revenue volatility, slowing demand growth, technological change, falling energy costs and increased competition. If the impact of these risk factors is more/less negative than we anticipate, then the share price could fail to reach/rise above our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

**IMPORTANT DISCLOSURES**



Telecity Group Plc (TCY.L)

Ratings and Target Price History - Fundamental Research

Analyst: Simon Weeden - Covered since June 2 2014

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Target Closing

Price Price

Date Rating (GBP) (GBP)

------------------------------------------

7 Oct 11 Stock rating system changed

14 Feb 12 1 \*7.55 6.76

25 Apr 12 1 \*9.00 7.89

29 Oct 12 1 \*10.70 9.11

6 Nov 12 1 \*10.05 8.33

14 Feb 13 1 \*10.20 8.97

3 Sep 13 1 \*9.70 8.50

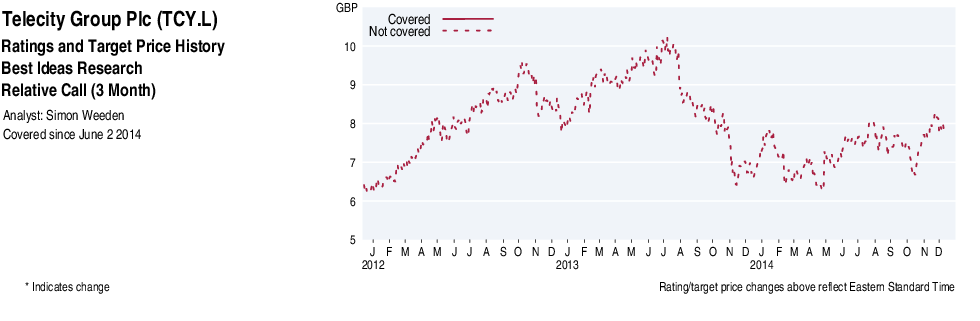
13 Feb 14 1 \*8.50 6.41

8 Jul 14 1 \*9.00 7.57

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Telecity Group Plc (TCY.L)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Simon Weeden - Covered since June 2 2014

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Target Closing

Price Price

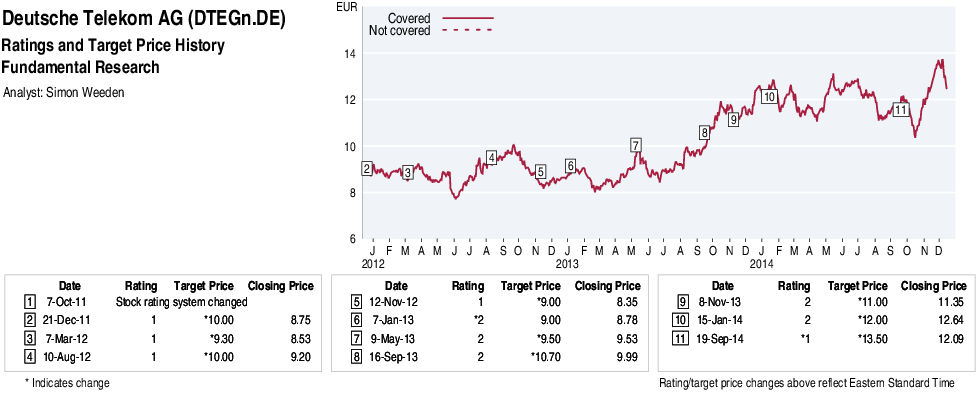
Date Rating (GBP) (GBP)

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Deutsche Telekom AG (DTEGn.DE)

Ratings and Target Price History - Fundamental Research

Analyst: Simon Weeden

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Target Closing

Price Price

Date Rating (EUR) (EUR)

------------------------------------------

7 Oct 11 Stock rating system changed

21 Dec 11 1 \*10.00 8.75

7 Mar 12 1 \*9.30 8.53

10 Aug 12 1 \*10.00 9.20

12 Nov 12 1 \*9.00 8.35

7 Jan 13 \*2 9.00 8.78

9 May 13 2 \*9.50 9.53

16 Sep 13 2 \*10.70 9.99

8 Nov 13 2 \*11.00 11.35

15 Jan 14 2 \*12.00 12.64

19 Sep 14 \*1 \*13.50 12.09

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Deutsche Telekom AG (DTEGn.DE)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Simon Weeden

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Target Closing

Price Price

Date Rating (EUR) (EUR)

------------------------------------------

18 Apr 12 \*REM MP

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Telekom Austria (TELA.VI)

Ratings and Target Price History - Fundamental Research

Analyst: Georgios Ierodiaconou

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Target Closing

Price Price

Date Rating (EUR) (EUR)

------------------------------------------

7 Oct 11 Stock rating system changed

19 Dec 11 \*2 \*8.61 8.12

5 Jul 12 2 \*7.69 6.96

17 Aug 12 2 \*6.90 6.36

3 Sep 12 \*1 6.90 5.77

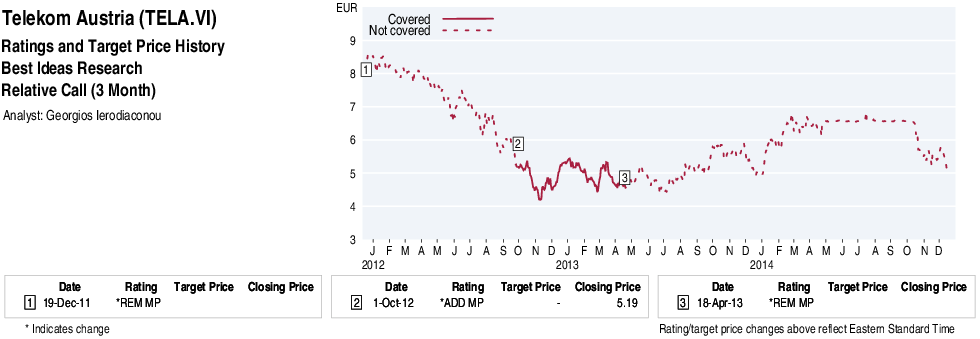
10 Sep 13 \*2 \*5.52 5.07

24 Mar 14 2 \*6.44 6.51

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Telekom Austria (TELA.VI)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Georgios Ierodiaconou

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Target Closing

Price Price

Date Rating (EUR) (EUR)

------------------------------------------

19 Dec 11 \*REM MP

1 Oct 12 \*ADD MP - 5.19

18 Apr 13 \*REM MP

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Elisa Oyj (ELI1V.HE)

Ratings and Target Price History - Fundamental Research

Analyst: Georgios Ierodiaconou - Covered since March 6 2014

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Target Closing

Price Price

Date Rating (EUR) (EUR)

------------------------------------------

7 Oct 11 Stock rating system changed

5 Apr 12 3 \*15.00 15.90

25 Jun 12 \*2 15.00 15.85

22 Apr 13 2 \*14.50 13.59

27 Sep 13 2 \*16.50 17.89

15 Jan 14 2 \*19.00 19.57

24 Feb 14 2 \*19.50 20.53

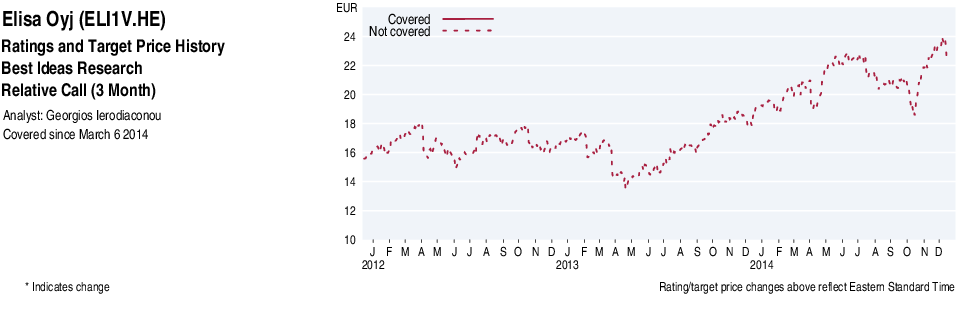
17 Mar 14 \*1 \*24.00 20.59

25 Apr 14 1 \*26.00 21.09

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Elisa Oyj (ELI1V.HE)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Georgios Ierodiaconou - Covered since March 6 2014

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Target Closing

Price Price

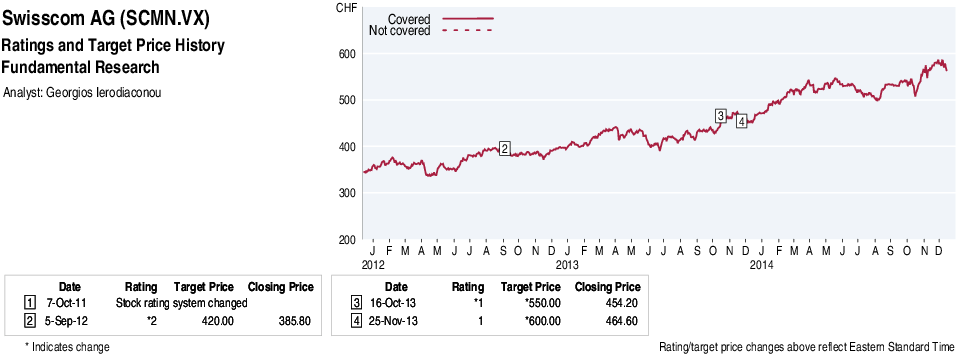
Date Rating (EUR) (EUR)

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Swisscom AG (SCMN.VX)

Ratings and Target Price History - Fundamental Research

Analyst: Georgios Ierodiaconou

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Target Closing

Price Price

Date Rating (CHF) (CHF)

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7 Oct 11 Stock rating system changed

5 Sep 12 \*2 420.00 385.80

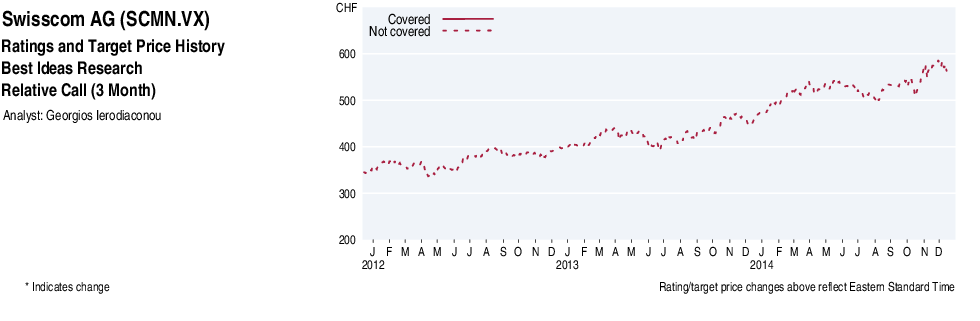
16 Oct 13 \*1 \*550.00 454.20

25 Nov 13 1 \*600.00 464.60

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Swisscom AG (SCMN.VX)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Georgios Ierodiaconou

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Target Closing

Price Price

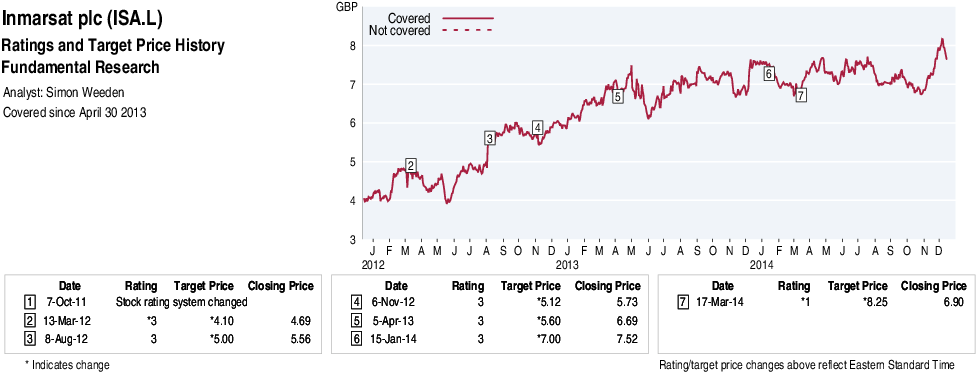
Date Rating (CHF) (CHF)

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Inmarsat plc (ISA.L)

Ratings and Target Price History - Fundamental Research

Analyst: Simon Weeden - Covered since April 30 2013

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Target Closing

Price Price

Date Rating (GBP) (GBP)

------------------------------------------

7 Oct 11 Stock rating system changed

13 Mar 12 \*3 \*4.10 4.69

8 Aug 12 3 \*5.00 5.56

6 Nov 12 3 \*5.12 5.73

5 Apr 13 3 \*5.60 6.69

15 Jan 14 3 \*7.00 7.52

17 Mar 14 \*1 \*8.25 6.90

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Inmarsat plc (ISA.L)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Simon Weeden - Covered since April 30 2013

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Target Closing

Price Price

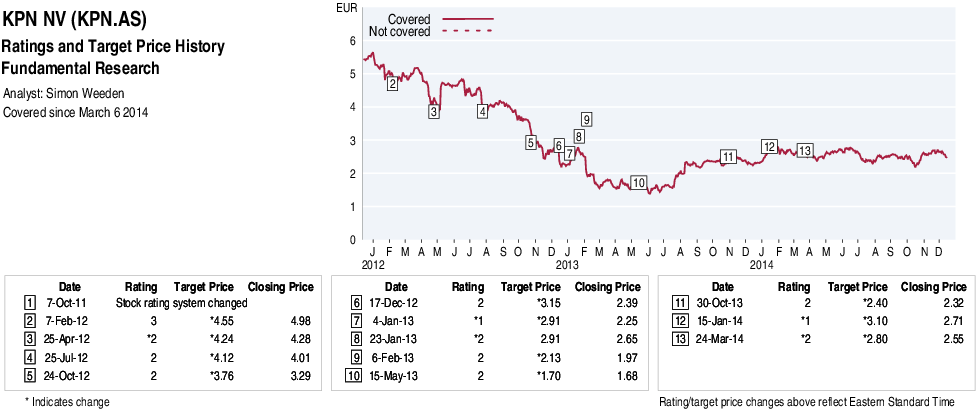
Date Rating (GBP) (GBP)

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



KPN NV (KPN.AS)

Ratings and Target Price History - Fundamental Research

Analyst: Simon Weeden - Covered since March 6 2014

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Target Closing

Price Price

Date Rating (EUR) (EUR)

------------------------------------------

7 Oct 11 Stock rating system changed

7 Feb 12 3 \*4.55 4.98

25 Apr 12 \*2 \*4.24 4.28

25 Jul 12 2 \*4.12 4.01

24 Oct 12 2 \*3.76 3.29

17 Dec 12 2 \*3.15 2.39

4 Jan 13 \*1 \*2.91 2.25

23 Jan 13 \*2 2.91 2.65

6 Feb 13 2 \*2.13 1.97

15 May 13 2 \*1.70 1.68

30 Oct 13 2 \*2.40 2.32

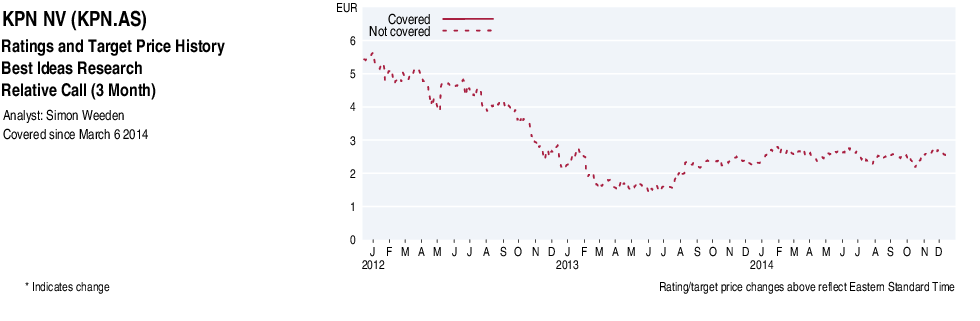
15 Jan 14 \*1 \*3.10 2.71

24 Mar 14 \*2 \*2.80 2.55

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



KPN NV (KPN.AS)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Simon Weeden - Covered since March 6 2014

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Target Closing

Price Price

Date Rating (EUR) (EUR)

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Orange (ORAN.PA)

Ratings and Target Price History - Fundamental Research

Analyst: Simon Weeden - Covered since March 6 2014

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Target Closing

Price Price

Date Rating (EUR) (EUR)

------------------------------------------

7 Oct 11 Stock rating system changed

2 Apr 12 \*3 \*9.10 11.19

26 Oct 12 3 \*8.30 8.83

21 Feb 13 3 \*7.00 7.29

24 Jun 13 3 \*6.80 7.12

26 Jul 13 3 \*6.60 7.54

24 Oct 13 3 \*7.20 10.18

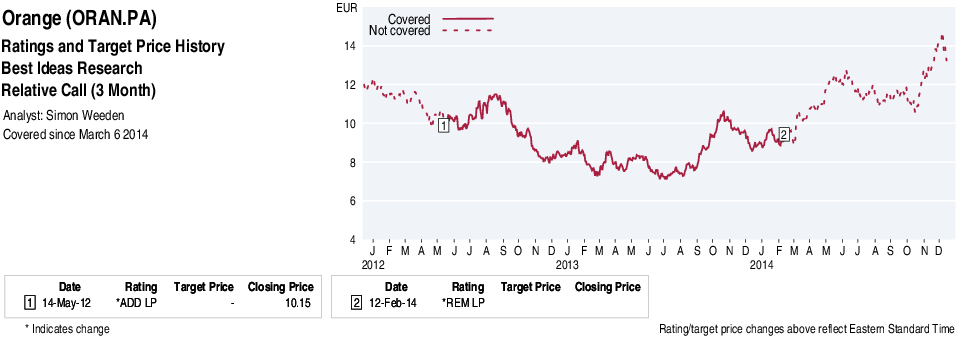
24 Mar 14 \*2 \*9.80 10.03

8 Jul 14 2 \*12.00 11.19

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time



Orange (ORAN.PA)

Ratings and Target Price History - Best Ideas Research

Relative Call (3 Month)

Analyst: Simon Weeden - Covered since March 6 2014

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Target Closing

Price Price

Date Rating (EUR) (EUR)

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14 May 12 \*ADD LP - 10.15

12 Feb 14 \*REM LP

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\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Liberty Global PLC

Citigroup Global Markets Limited acted as advisor to Telefonica SA in the announced acquisition of E-Plus Service GmbH & Co by Telefonica Deutschland GmBH from Koninklijke KPN NV. Citigroup Global Markets Limited is acting as Joint Global Co-ordinator & Bookrunner in the announced Rights Issue by Telefonica Deutschland.

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| --- | --- | --- | --- | --- | --- | --- |
| Citi Research Equity Ratings Distribution |  |  |  |  |  |  |
|  | 12 Month Rating | | | Relative Rating | | |
| Data current as of 30 Sep 2014 | Buy | Hold | Sell | Buy | Hold | Sell |
| Citi Research Global Fundamental Coverage | 48% | 40% | 12% | 0% | 100% | 0% |
| % of companies in each rating category that are investment banking clients | 66% | 63% | 56% | 0% | 64% | 0% |

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**Risk rating** takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.  
**Investment Ratings:** Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months.  The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Prior to May 1, 2014 Citi Research may have also assigned a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may have highlighted a specific near-term catalyst or event impacting the company or the market that was anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) may have indicated the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may have been different from and did not affect a stock's fundamental equity rating, which reflected a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls corresponded to a buy recommendation and least preferred calls corresponded to a sell recommendation. Any stock not assigned to a most preferred or least preferred call was considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we corresponded NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we did not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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| Citigroup Global Markets India Private Limited | Rohit Modi |
| Citigroup Global Markets Brazil | Lucio Aldworth |
| Citigroup Global Markets Inc | Jason B Bazinet; Michael Rollins, CFA |

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