

Tailwinds from competition

(YE15 Price Target upgraded from €5.30 to €6.30; Buy Recommendation)

Buy

Medium Risk

January 2015

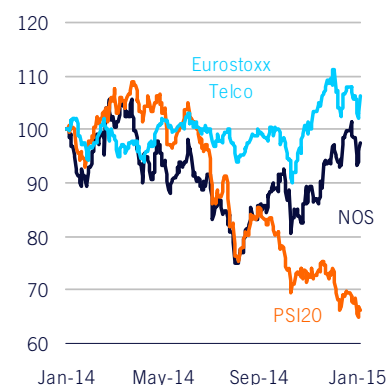
Portugal

▶ **Positive signs from competition:** All the operators announced price increases in the range of 3-4% for 2015. But given the weight of customers under promotional prices, the impact is bound to be limited. However, VOD has also increased its 3-Play base price from € 24.90 to € 25.90, which has been the base for the promotional prices in the 3-Play segment for all the operators. Perhaps, more important than the direct impact this will have when renewing the promotions is the sign VOD is giving the market. We remain conservative in our estimate for sector revenues (CAGR13-18<sup>F</sup> of -1.2%), but acknowledge upside risks. Apart from this, PT Portugal continues to be strongly conditioned by PT/Oi events which is bound to benefit its competitors and NOS in particular.

▶ **Still the best positioned player in the sector:** NOS continues to have the largest NGN coverage in the country (3.2mn and plans to reach 3.6mn in YE15) and its large 3P customer base is the most powerful argument to surf the wave of convergence. On top of that, NOS is the only player that can match PT in network capacity, expertise and reach in the enterprise segment. As pricing pressure fades in the 3-Play segment, revenue accretion by the strong growth in mobile subs. and the corporate segment becomes more evident. We expect NOS 26.7% revenue mkt. share in 2013 to grow 4.8pp through 2018.

▶ **Poised for growth:** NOS proposed less than one year ago ambitious growth targets which in light of the events with PT and the positive signs from VOD seem now too conservative. We believe that NOS targets will continue to anchor market consensus for a while but the upside risks seem bulky in our view. 3Q results and a more benign competitive environment (+1.2pp mkt share till 2018) added 19% to our **YE15 Price Target, now at €6.30**. Strong growth, tailwinds from competition and a solid efficiency track record sustain our **BUY** stance.

NOS vs. PSI20 vs. Eurostoxx Telco



Source: Bloomberg.

Stock Data

Price (9 <sup>th</sup> Jan.):	5.17	Price Target (YE15):	6.30
# shares (mn):	515.2	M. Cap (€ mn) / F. Float:	2 661 / 42%
Reuters/Bloomberg:	NOS.LS/NOS PL	Avg. Daily Vol. [€'000]:	4 355
Major Shareholders:	ZOPT (50.01%); BPI (4.5%); Morgan Stanley (2.3%); Sonaecom (1.2%)		

Estimates

	2011	2012	2013	2014 <sup>F</sup>	2015 <sup>F</sup>	2016 <sup>F</sup>	2017 <sup>F</sup>
PE Adj.	-	23.3	41.8	37.7	26.9	18.1	13.2
Dividend yield	-	0.0%	0.0%	2.3%	2.3%	3.5%	5.2%
FCFE Yield	-	-76.0%	3.6%	0.1%	2.4%	6.5%	9.2%
FCFF Yield	-	-63.8%	6.8%	3.4%	4.4%	7.2%	8.9%
PBV	-	5.16	2.57	2.55	2.49	2.39	2.27
EV/EBITDA <sup>(1)</sup>	-	6.3	6.2	6.6	6.4	5.9	5.5
EV/Sales <sup>(1)</sup>	-	2.3	2.3	2.4	2.4	2.3	2.2

(1) EV is fixed with current market cap and MV of remaining items.

Analyst

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Sum-of-Parts Valuation

(€ mn)		
Telco	3802	DCF
Audiovisual & Cinema	148	
ZAP + SportTV	237	DCF
Other non- contributable	60	DCF
<b>Total EV</b>	<b>4246</b>	
Net Debt YE15	-999	
<b>Equity Value</b>	<b>3247</b>	
# shares (mn)	514	
<b>YE15 Price Target (€)</b>	<b>6.30</b>	

Source: BPI Equity Research.

Historical Recommendation

Date	Recommendation
03-Oct-13	CoRe Buy
03-Mar-14	Buy
06-Nov-14	Restricted

Source: BPI Equity Research.

Available on our website:  
[www.bpiequity.bpi.pt](http://www.bpiequity.bpi.pt), BPI Online,  
and Bloomberg at **NH BPD**.

P&L (€ mn)								CAGR
	2011	2012	2013	2014 <sup>f</sup>	2015 <sup>f</sup>	2016 <sup>f</sup>	2017 <sup>f</sup>	13-17
<b>Revenues</b>	-	<b>1474</b>	<b>1427</b>	<b>1379</b>	<b>1397</b>	<b>1456</b>	<b>1528</b>	<b>2%</b>
<b>EBITDA</b>	-	<b>541</b>	<b>537</b>	<b>513</b>	<b>524</b>	<b>566</b>	<b>616</b>	<b>3%</b>
<b>EBITDA adj.</b>	-	<b>541</b>	<b>537</b>	<b>513</b>	<b>524</b>	<b>566</b>	<b>616</b>	<b>3%</b>
EBITDA adj. mg.	-	36.7%	37.6%	37.2	37.5%	38.8%	40.3%	2%
Depreciation & others	-	344	336	337	338	330	320	-1%
<b>EBIT</b>	-	<b>198</b>	<b>200</b>	<b>176</b>	<b>186</b>	<b>235</b>	<b>296</b>	<b>10%</b>
<b>EBIT adj.</b>	-	<b>198</b>	<b>200</b>	<b>176</b>	<b>186</b>	<b>235</b>	<b>296</b>	<b>10%</b>
Net financial results	-	-22	-32	-39	-47	-43	-37	4%
Income Tax	-	20	13	18	27	44	65	49%
Others	-	0	0	0	0	0	0	
Minority Interests	-	1	0	0	0	0	0	0%
<b>Net Profit reported</b>	-	<b>114</b>	<b>64</b>	<b>71</b>	<b>99</b>	<b>147</b>	<b>201</b>	<b>33%</b>
<b>Net Profit adj.</b>	-	<b>114</b>	<b>64</b>	<b>71</b>	<b>99</b>	<b>147</b>	<b>201</b>	<b>33%</b>

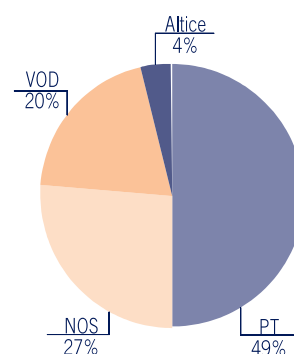
Balance Sheet (€ mn)								CAGR
	2011	2012	2013	2014 <sup>f</sup>	2015 <sup>f</sup>	2016 <sup>f</sup>	2017 <sup>f</sup>	13-17
Net Intangibles	-	1122	1111	1101	1092	1088	1084	-1%
Net Fixed Assets	-	1165	1097	1138	1154	1128	1085	0%
Net Financials	-	37	32	57	73	94	120	40%
Inventories	-	43	33	37	37	39	41	6%
ST Receivables	-	326	310	293	305	305	320	1%
Other Assets	-	71	71	75	75	77	79	
Cash & Equivalents	-	307	74	307	307	307	307	42%
<b>Total Assets</b>	-	<b>3237</b>	<b>2889</b>	<b>3157</b>	<b>3182</b>	<b>3150</b>	<b>3117</b>	<b>2%</b>
<b>Equity &amp; Minorities</b>	-	<b>1050</b>	<b>1060</b>	<b>1069</b>	<b>1107</b>	<b>1161</b>	<b>1223</b>	<b>4%</b>
<b>MLT Liabilities</b>	-	<b>1181</b>	<b>1067</b>	<b>1067</b>	<b>1067</b>	<b>1067</b>	<b>1067</b>	<b>0%</b>
o.w. Debt	-	1044	928	928	928	928	928	0%
<b>ST Liabilities</b>	-	<b>1006</b>	<b>762</b>	<b>1020</b>	<b>1008</b>	<b>922</b>	<b>827</b>	<b>2%</b>
o.w. Debt	-	424	213	504	501	421	315	10%
o.w. Payables	-	582	549	516	507	501	511	-2%
<b>Equity+Min.+ Liabilities</b>	-	<b>3237</b>	<b>2889</b>	<b>3157</b>	<b>3182</b>	<b>3150</b>	<b>3117</b>	<b>2%</b>

Cashflow (€ mn)							
	2011	2012	2013	2014 <sup>f</sup>	2015 <sup>f</sup>	2016 <sup>f</sup>	2017 <sup>f</sup>
+ EBITDA	-	541	537	513	524	566	616
- Chg in Net W.C.	-	25	30	20	23	7	6
- Income Taxes	-	13	18	10	14	22	36
<b>= Operating Cash Flow</b>	-	<b>503</b>	<b>489</b>	<b>483</b>	<b>487</b>	<b>537</b>	<b>574</b>
- Growth Capex	-	2333	8	85	80	30	0
- Replacement Capex	-	297	261	259	243	245	248
- Net Fin. Inv.	-	37	-5	25	16	21	26
<b>= Cash Flow after Inv.</b>	-	<b>-2164</b>	<b>225</b>	<b>113</b>	<b>147</b>	<b>241</b>	<b>300</b>
- Net Fin. Exp.	-	51	44	44	52	48	42
- Dividends Paid	-	0	0	62	62	93	139
+/- Equity	-	859	0	0	0	0	0
Other	-	195	-25	-26	-21	-18	-13
<b>=Change in Net Debt</b>	-	<b>1162</b>	<b>-95</b>	<b>58</b>	<b>-3</b>	<b>-81</b>	<b>-105</b>
<b>Net Debt (+)/Net Cash (-)</b>	-	<b>1162</b>	<b>1067</b>	<b>1126</b>	<b>1123</b>	<b>1042</b>	<b>937</b>

Growth, per share data and ratios							
	2011	2012	2013	2014 <sup>f</sup>	2015 <sup>f</sup>	2016 <sup>f</sup>	2017 <sup>f</sup>
Sales growth	-	-	-3%	-3%	1%	4%	5%
EBITDA Adj. growth	-	-	-1%	-4%	2%	8%	9%
EPS Adj. growth	-	-	-44%	11%	40%	48%	37%
Avg. # sh (mn)	-	514	514	514	514	514	514
Basic EPS	-	0.22	0.12	0.14	0.19	0.29	0.39
EPS Adj. Fully diluted	-	0.22	0.12	0.14	0.19	0.29	0.39
DPS	-	0.00	0.00	0.12	0.12	0.18	0.27
Payout	-	0.0%	97.1%	87.5%	93.6%	95.0%	95.0%
ROCE (after tax)	-	19.0%	9.6%	7.8%	7.9%	9.5%	11.5%
ROE	-	22.1%	6.1%	6.8%	9.3%	13.2%	17.2%
Gearing (ND/EV)	-	34.3%	32.3%	33.4%	33.4%	31.0%	27.9%
Net Debt/EBITDA	-	2.1	2.0	2.2	2.1	1.8	1.5

Source: Company data and BPI Equity Research (F).

## Revenue market share (3Q14)



Source: BPI ER and companies data.

## Sensitivity Analysis of Fair Value (€/Share)

	Rf	EBIT margin		
		23%	24%	25%
	3.4%	6.89	6.08	5.41
+	4.4%	7.16	<b>6.30</b>	5.62
CrP	5.4%	7.42	6.55	5.83

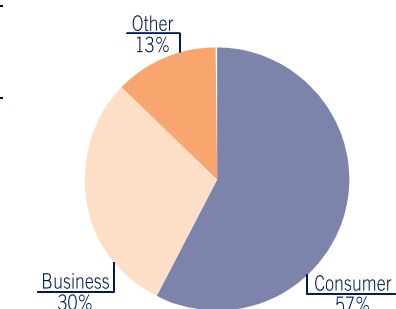
Source: BPI Equity Research.

## DCF Assumptions

Re	Telco	11.0%
Rf + CrP		4.40%
Beta of Equity		1.11
Mkt Premium		6.0%
Rd		5.0%
Tax Rate		29%
<b>WACC</b>		<b>8.4%</b>
EBIT mg perp		24%

Source: BPI Equity Research.

## Revenue breakdown (FY15)



Source: BPI Equity Research.

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#### INVESTMENT RATINGS AND RISK CLASSIFICATION (TOTAL RETURN IN 12-18 MONTHS):

	Low Risk	Medium Risk	High Risk
Buy/CoRe Buy	>15%	>20%	>30%
Neutral	>5% and < 15%	>10% and <20%	>15% and < 30%
Reduce	>-10% and < 5%	>-10% and < 10%	>-10% and < 15%
Sell	< -10%	< -10%	< -10%

These investment ratings are not strict and should be taken as a general rule.

#### INVESTMENT RATINGS STATISTICS

As of 31<sup>st</sup> December BPI Equity Research's investment ratings were distributed as follows:

CoRe Buy	9%
Buy	26%
Neutral	43%
Reduce	11%
Sell/Accept Bid	5%
Under Revision/Restricted	5%
<b>Total</b>	<b>100%</b>

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