



Global Telecoms Daily

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Global Telco/Tech headlines - 12th October 2018

Gartner PC data reinforces our positive view of PC market and our Intel outlook for PC segment

Telefonica (Neutral): Re-launched its Fusion converged offers in Spain.

mmWave Bidders Announced: Two Surprises

Full Details:

Gartner PC data reinforces our positive view of PC market and our Intel outlook for PC segment

- One of the foundations underpinning our positive perspective on Intel is our conviction that the PC market is exiting a 5-year period of adjustment and is now entering an era of stability.
- In light of recent PC shipment data we review our thesis in this note.
- Full note [LINK](#)

Telefonica (Neutral, TP: €6.9): Re-launched its Fusion converged offers in Spain.

- The re-launch follows the acquisition over the Summer months of the domestic La Liga rights and European football (Champions League, Europa). Telefonica commented at its Video Presentation in London that the full ownership of all the rights, rather than wholesaling rights from Mediapro as is the case under the former package, gave it the flexibility to repackage the football offers in new and more nimble ways.

The new packages incorporate a number of elements:

- **There is now an entry level football product at EUR72/month, designed to expand the size of the football TV market - currently ~2m out of 6.3m pay TV subs.**
 - This includes *El Partizado* (best match of the week) which had previously not been sold on standalone basis.
 - The previous cheapest football offer in Spain was EUR80m (although in the press release this is referenced at EUR95/month) which included the 8 matches/week but not *El Partizado* and was, we suspect, something of a niche product.

- There are two packages at EUR95/month which include El Partizado and either 1/ the 8 matches, or 2/ European football. This is the same price as the previous offer which bundled in 8 matches and European football.
- The all-in football package is moving up from EUR125 to EUR130/month.
- See [LINK](#) for summary of New vs Old pricing.
- In addition:
 - The Mbps speeds across the range are 600 Mbps, while lower end offers were previously 100 Mbps (on the former EUR80 offer, for example).
 - Telefonica is now bundling in “Series” (or box sets) in all the football packages. For comparison purposes, Telefonica sold a 100 Mbps Series (Ocio) offer for 80 Mbps i.e. the value of Series can be seen as equivalent to the 8 matches/week football package (which was similarly sold for EUR80).
- Some conclusions:
 - The desire to expand the TV market is consistent with the message from Telefonica that football is, to some degree, underpenetrated in Spain. The high ticket price (in addition to cultural differences) is to some degree a part of this. This is understandable in the content of rights cost in Spain which we think cost Telefonica 13% of domestic EBITDA.
 - Versus the 2m football paying subs in Spain today, successfully targeting another 100,000 new subs at EUR72 (EUR58 after-tax), for example, at a contribution margin of 50% (arguably conservative, this could theoretically be approaching 100%, held back mainly by higher TEF share vs ORA driving lower wholesale revenue), would add EUR35m of EBITDA per year, or 1% of Spanish EBITDA.
 - We believe Telefonica will have an eye on Vodafone subs in thinking about this porting. More generally, the combination of increased speeds and better offers/content will we suspect keep Vodafone’s business under pressure.
 - In addition, Telefonica will be looking to upsell to its own base of non-football paying subs, currently estimated at 38% penetration (football as % pay TV).
 - The risk with the new strategy will be spin down. For instance a EUR77 offer today at 600 Mbps, including Series, can now be replicated with *El Partizado* for EUR72. Telefonica will hope that any loss here will be more than compensated by wins elsewhere.
- BRL strength; while Argentina in sentiment
 - Separately, we would flag that news flow around the Brazilian election has materially improved sentiment on the BRL. Marking to market for USD1/3.7 (EUR1/4.4) versus our USD/4.1 (EUR1/4.9) which drives our EUR6.9 target, would take fair value to EUR7.2. A *Bolsonaro* victory in the second round is expected to prop up sentiment at these sorts of levels.
 - The announcement that Telefonica would move to hyperinflation accounting for Argentina (as part of a broader missive from the CNMV in Spain that all Spanish companies with Argentine assets should do likewise) had been well flagged and we think is in sentiment (if not necessarily in sell side numbers). The impact is small at the group level but, for instance, we think will see Argentina EBITDA step down by ~40% Q3 18 vs Q2.
- Telefonica is compiling consensus this week and we would expect some steer on sequential Argentina trends - and more generally across the group - as Telefonica starts its pre-Q3 calls.

mmWave Bidders Announced: Two Surprises

- The FCC has released the list of bidders for upcoming mmWave auctions in the 28GHz and 24GHz bands.
- The companies who have registered include: Verizon, AT&T, T-Mobile, Sprint, US Cellular, DISH, Frontier, Windstream, Cox, Viasat, Starry, and GCI Liberty.
- With anti-collusion rules in place, these companies are effectively restricted from holding M&A talks with each other until the auctions are over.
- There are two surprises among the bidders: first, Comcast and Charter did not register to bid at all, and second, DISH registered for both auctions despite balance sheet constraints.
- No thesis changers yet, though the 24GHz auction could prove interesting.
- Full note [LINK](#)

FORTHCOMING EVENTS

October (date TBA): Meet the Banker Dinner. (New York)

Dinner in NY with investment bankers active in the technology infrastructure space. Informal discussion about industry trends and investment opportunities.

October 17th: InstaDeep CEO meetings. (New York)

Karim Beguir is the CEO of InstaDeep, a company engaged in cutting-edge A.I. research. He is a beta-user of the TPU and finds fields of application for the latest A.I. algorithms.

October/November (date TBA): Understanding Ray Tracing. (New York) Come and meet domain experts and understand by yourself what ray-tracing is and how it can change the gaming industry and more.

November (date TBA): Broadcom CEO & CFO 'Unplugged' Conference Call.

Discussion with the CEO and the CFO of Broadcom to debrief the CA acquisition and understand next steps for the company.

November (date TBA): Lunch with a Cybersecurity Executive from Cisco. (New York) Update on Cisco's cybersecurity strategy.

November 11th: The future of Energy Infrastructure. (London) Meet CEOs and executives of the most innovative companies in Energy infrastructure to understand how technology changes the grid. OVO Energy, Alfen, Tiko Energy, and more.

November/December (date TBA): 5G Lunch with Arun Bansal, Ericsson. (London) Senior Vice President and Head of Market Area Europe & Latin America of Ericsson. Focus on how 5G is taking off and impacting the telecom equipment market.

December 3rd- 7th: Asian Telcos Investor Tour: KDDI, NTT, NTT DoCoMo, Softbank, Chunghwa, FarEastone, Taiwan Mobile, CJ Hellovision, Korea Telecom, LG Uplus, SKT, HKBN, HKT/PCCW, HTHK, SmarTone, China Mobile, China Telecom, China Unicom, Axiata, DiGi, Maxis, Telekom Malaysia, M1, MyRepublic, Netlink Trust, Singapore Telecom and StarHub. (Singapore, HK, Seoul, Tokyo, KL & Taipei)

12 month historical recommendation changes are available on request

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