# Spanish Unicorns

March 16, 2019 by Soomit Datta

It's been a busy week for coverage at New Street, having initiated on five companies across the telco, media and tech space: Softbank (Japan), Chorus (New Zealand), MultiChoice (South Africa) and MASMOVIL and Euskaltel in Spain.

We aim to have something different to say on all the names but in the case of Spain it's more a case of pointing out the obvious whilst reassuring investors that recent fears are overdone.

Spain is almost unique in Europe for containing that rare mythical of beasts, a unicorn – of a type, a telco that's actually growing: MASMOVIL (Buy, TP: EUR26). And not just growing slightly, but expanding revenue in great leaps and bounds. Revenue should increase well over 20% in 2019 as it plays on market penetration growth and share gains in converged FTTH services.

For those who've looked at the sector for a long time it's almost too good to be true. During late 2016 and early-17, the stock ramped on a succession of earnings beats but since then the concerns have crept in. Principally, this is around capex. The 2019/20 investment guide was higher than expected, largely because they're passing more attractive-IRR homes (it's very cheap in Spain). If growth continues – as we think it should – then this is good capex and will translate into better mid-term EBITDA.

For telco investors this perhaps feels all too familiar – more FCF downgrades and, watch this space, stock underperformance?

We think not, the company is confident in build-out economics, and we think the equity should be priced principally off its ability to grow top line, in which case FCF will follow. Our long-term market share assumption is actually fairly prosaic (13.5% of broadband subs) compared to what other challengers in the sector such as Iliad, Fastweb, TalkTalk have achieved. This target share is close to the same level where Jazztel was bought out by Orange in 2015…let's park that thought for now, but consolidation is of course possible or even likely further down the line.

We also think that share price outperformance at MASMOVIL is compatible with ongoing equity strength at Telefonica. They occupy different ends of the telco segment in Spain; rather, it's the middle which is being squeezed and we think Telefonica (Buy) can grow Spanish service revenue this year (just).

Telefonica presented on the rather dry issue of IFRS 16 in London this week but reminded us also of its cash deliverance in recent quarters. Leverage needs to come down, reasons the CFO, but even with some well-flagged German auction costs expected in 2019, solid Spain FCF, less regional FX headwinds (fingers crossed), further M&A possibilities and the odd piece of serendipity – a tax gain in Spain was announced today of over EUR700m – management can continue to chip away at the 3.2x hybrid adjusted leverage and support a stronger equity.

*For the full weekly review and updated comp sheets, see HERE*