

European High Yield Telecom

The Sector is in a good place

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Initiation: European High Yield Telecom

Q3 21 €m	Gross debt*	Cash	Net debt*	Gross debt as % of total sector	Given by company ND/EBITDA	WACD	WAM	NSR Equity rating
Telecom Italia	24,556	6,943	17,613	16%	3.0	3.7%	5.5	Neutral
Altice France	23,399	423	22,976	15%	5.3	4.3%	5.7	
Virgin Media O2	20,418	639	19,778	13%	3.7	3.8%	8.1	LG = Buy; Tef = Buy
Cellnex	18,174	1,501	16,673	12%	6.3	1.6%	7.2	Reduce
Vodafone-Ziggo	10,817	175	10,642	7%	6.3	3.7%	7.5	LG = Buy; Vod = Buy
Iliad	8,987	1,607	7,380	6%	2.8	1.6%	4.4	
Altice International	7,941	866	7,075	5%	4.3	3.6%	6.1	
Masmovil	6,799	155	6,644	4%	5.1	4.1%	5.2	
Sunrise-UPC	6,605	35	6,570	4%	4.0	3.7%	8.4	LG = Buy
Telenet	5,603	194	5,409	4%	3.9	3.1%	6.8	Buy
TDC (DKT)	4,236	123	4,113	3%	5.3	5.1%	2.8	
United Group	4,870	311	4,559	3%	4.7	3.9%	5.2	
PPF Telecom	4,227	266	3,961	3%	2.9	2.3%	3.9	
Inwit	4,100	1,000	3,100	3%	5.6	1.8%	5.9	Neutral
eir	2,550	528	2,022	2%	3.4	2.9%	5.0	
Salt	1,828	346	1,483	1%	3.4	3.3%	4.9	
Digi	1,180	43	1,136	1%	2.6	2.9%	5.4	
TalkTalk	922	43	879	1%	3.1	3.9%	3.6	
Ice Group	545	46	500	0%	16.5	8.3%	5.7	
Aggregate	157,757	15,244	142,513	100%	4.2	3.4%	6.3	

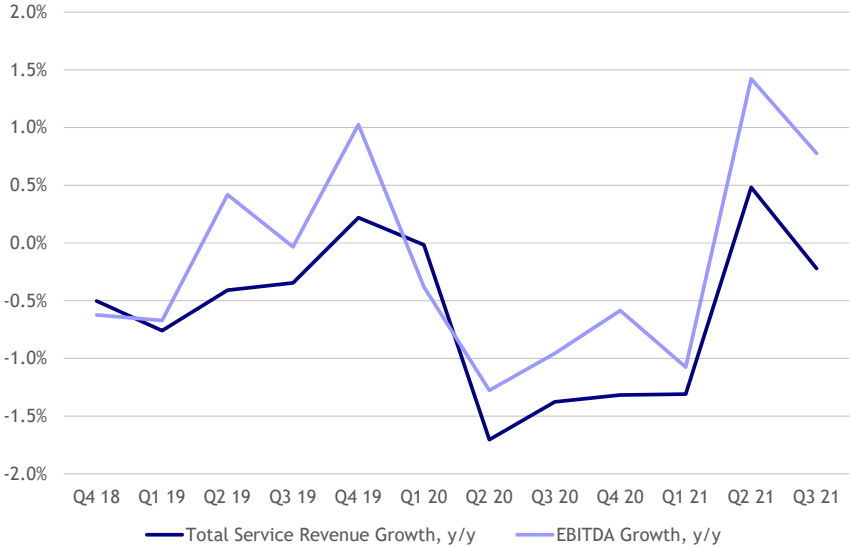
* Excludes lease debt

Sector overview - Operators

Sector outlook: Improving revenue trends....

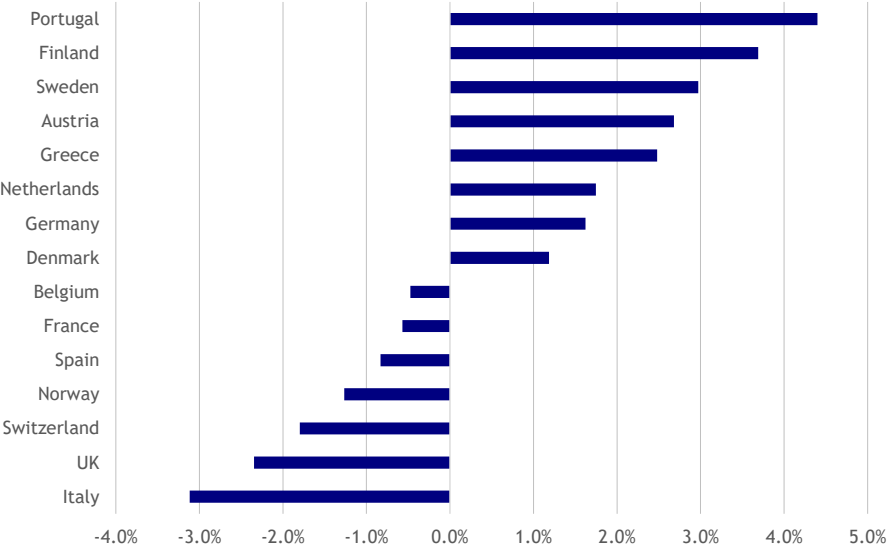
Sector quarterly growth rates, y/y

Source: NSR estimates



Country ranked SR growth Q3 21, y/y

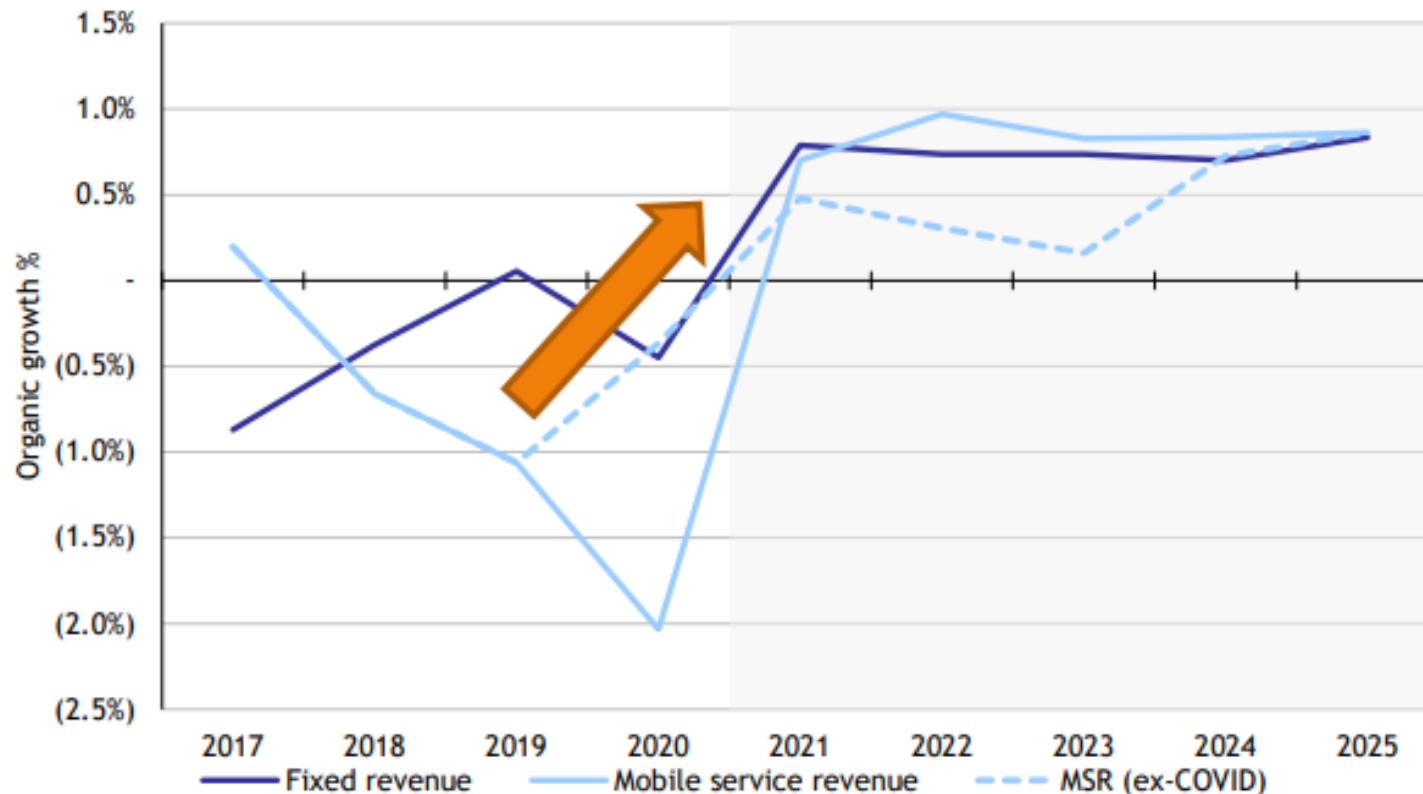
Source: NSR estimates



Sector outlook:that are expected to continue

EU Telecoms fixed and mobile revenue growth - improving trends ex-COVID as well

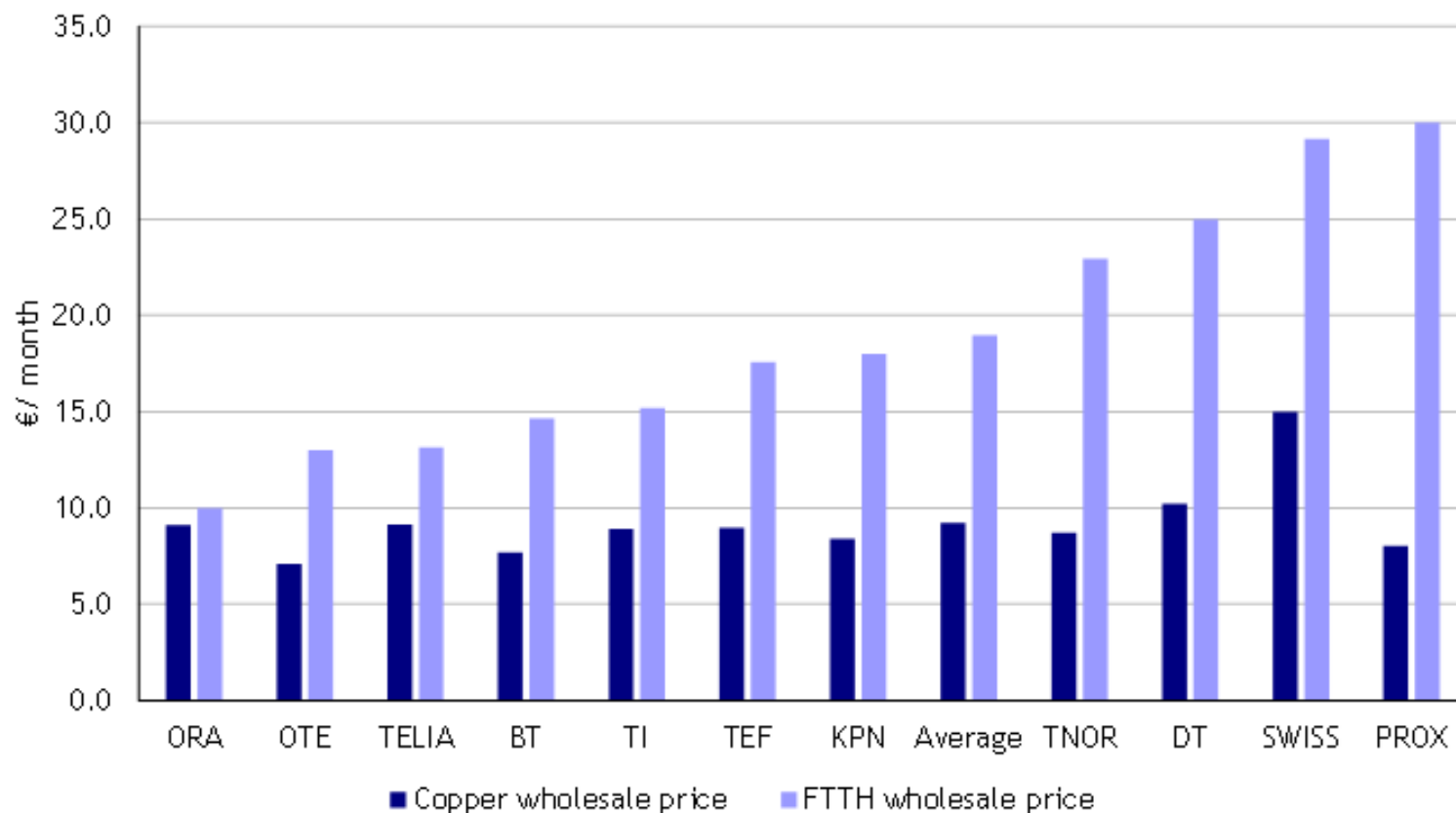
Source: NSR estimates



Sector outlook: Supported by improving regulation

Regulated fixed wholesale wireline prices

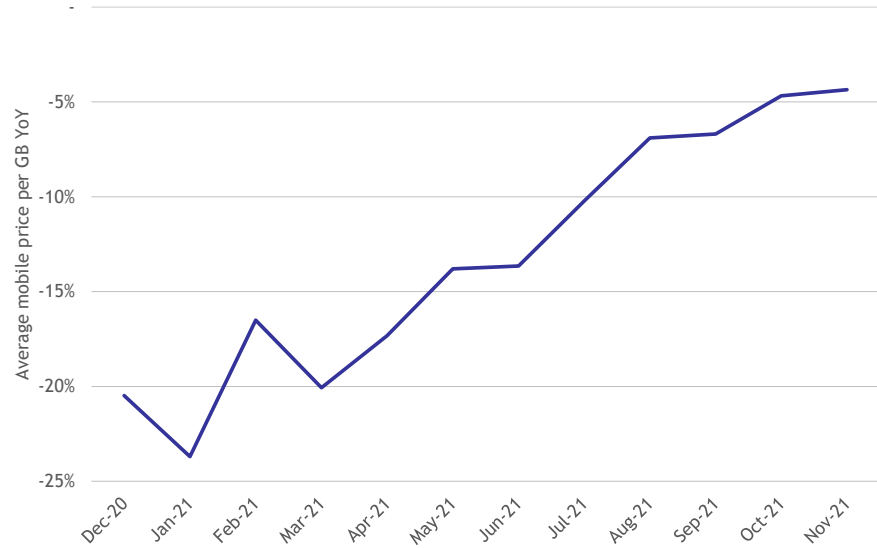
Source: NSR estimates



Sector outlook: And backed up by our tariff data

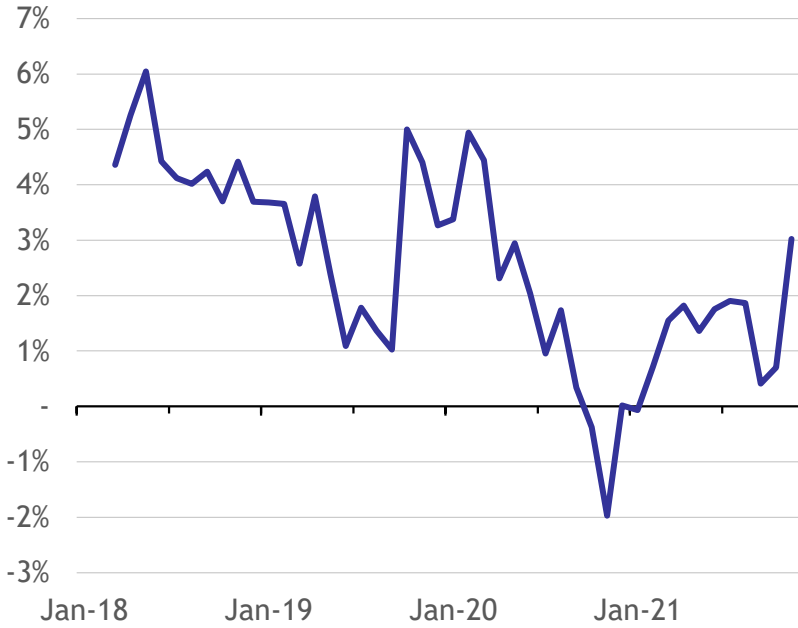
Mobile unit pricing trends continues to improve

Source: NSR Tariff Tracker



Broadband pricing generally inflationary

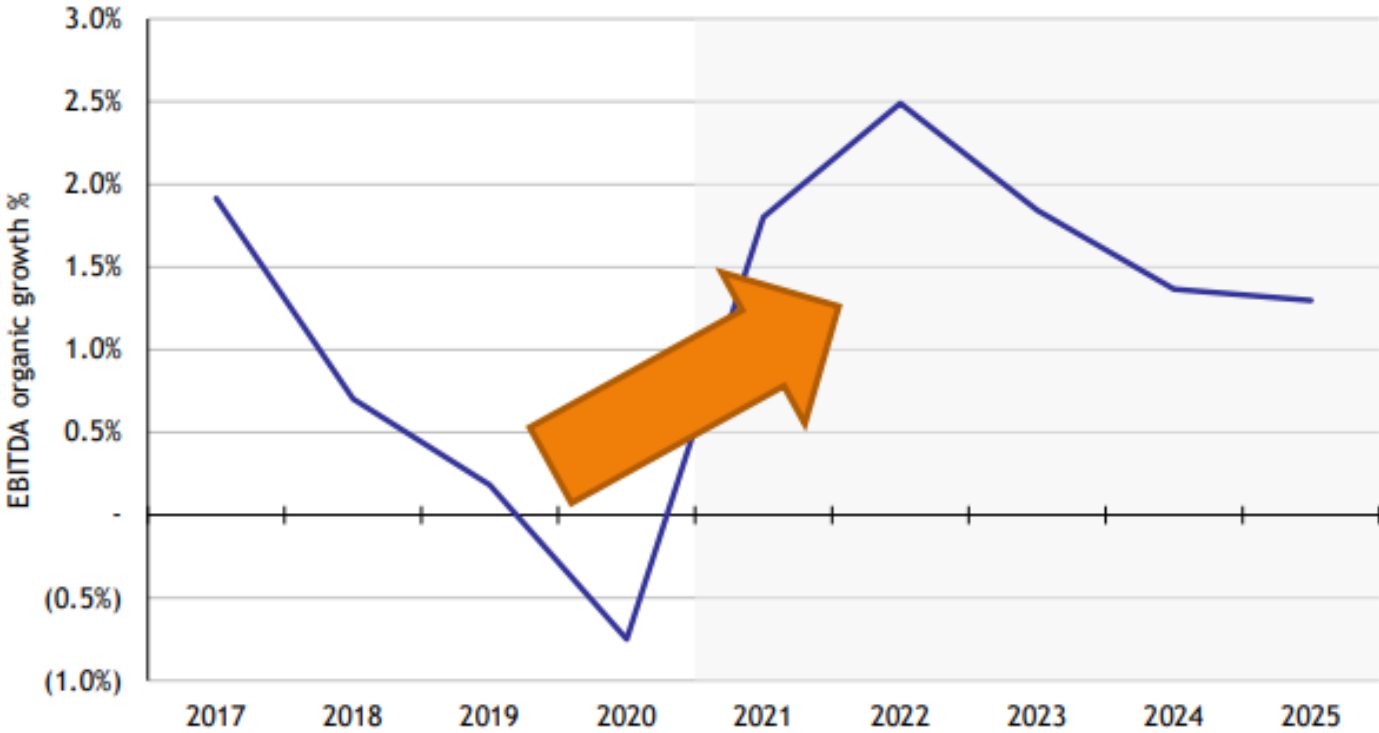
Source: NSR Tariff Tracker



Sector outlook: Leading to improving EBITDA trends

EU Telecoms EBITDA growth

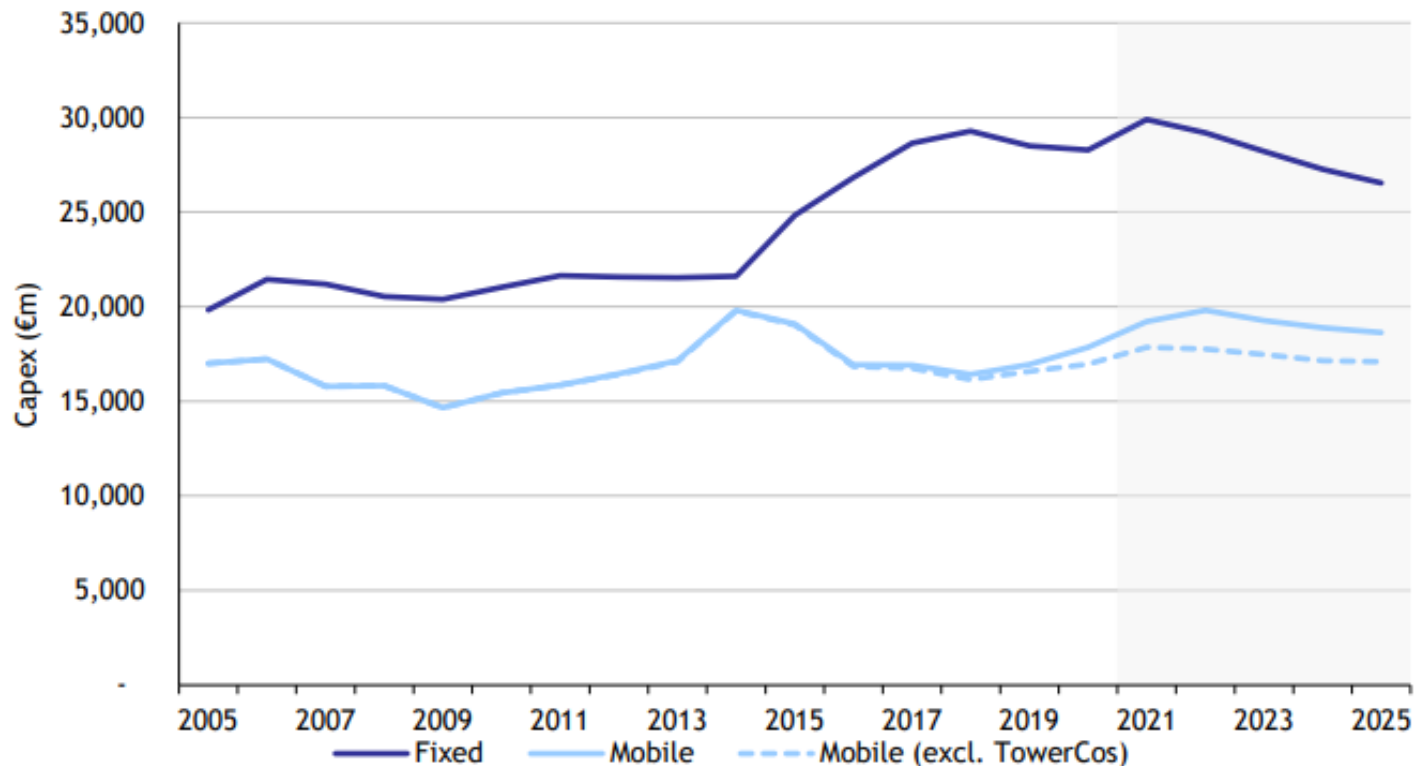
Source: NSR estimates



Sector outlook: And capex peaking as FTTH builds slow

EU Telecoms fixed and mobile capex

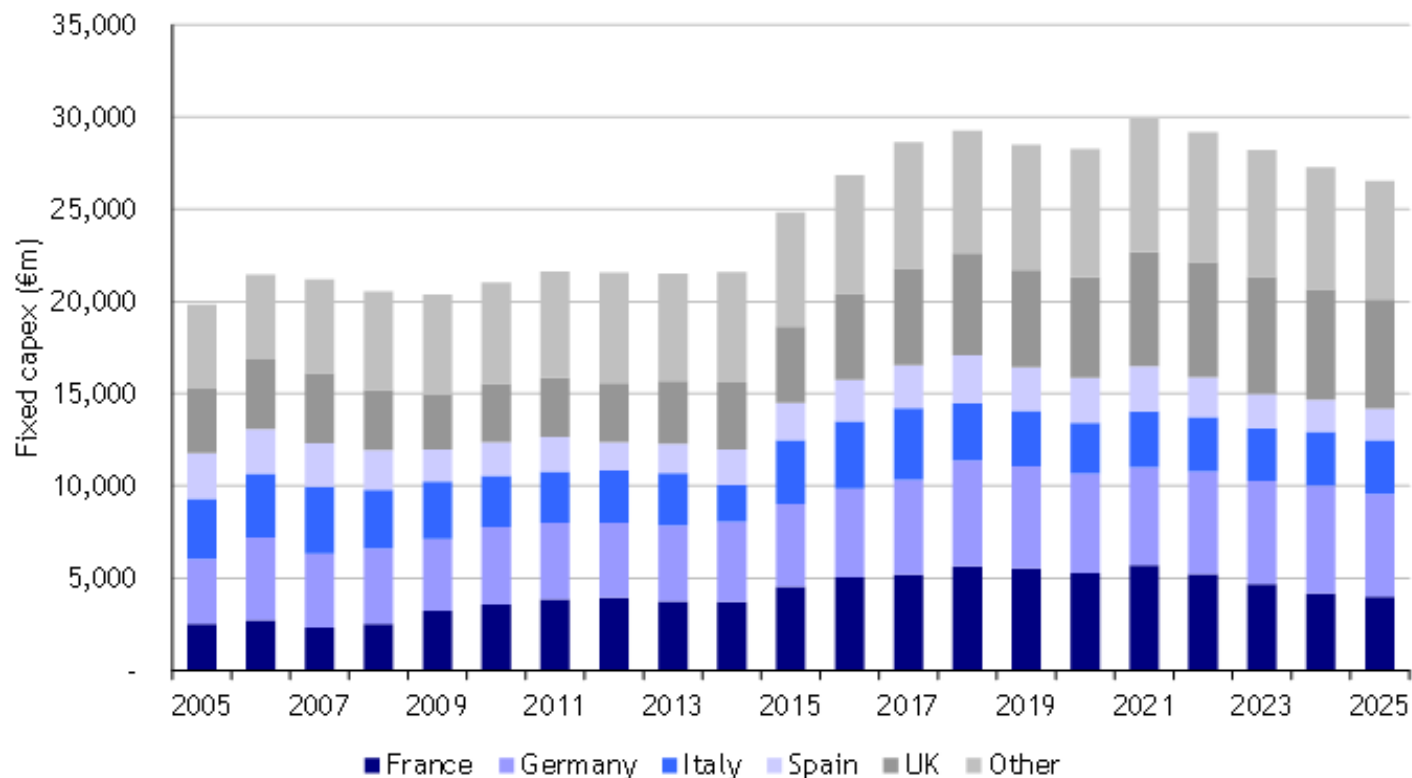
Source: NSR estimates. Fixed capex excludes privately-owned fibre altnets.



Sector outlook: Driven by France in particular

EU Telecoms fixed capex by market

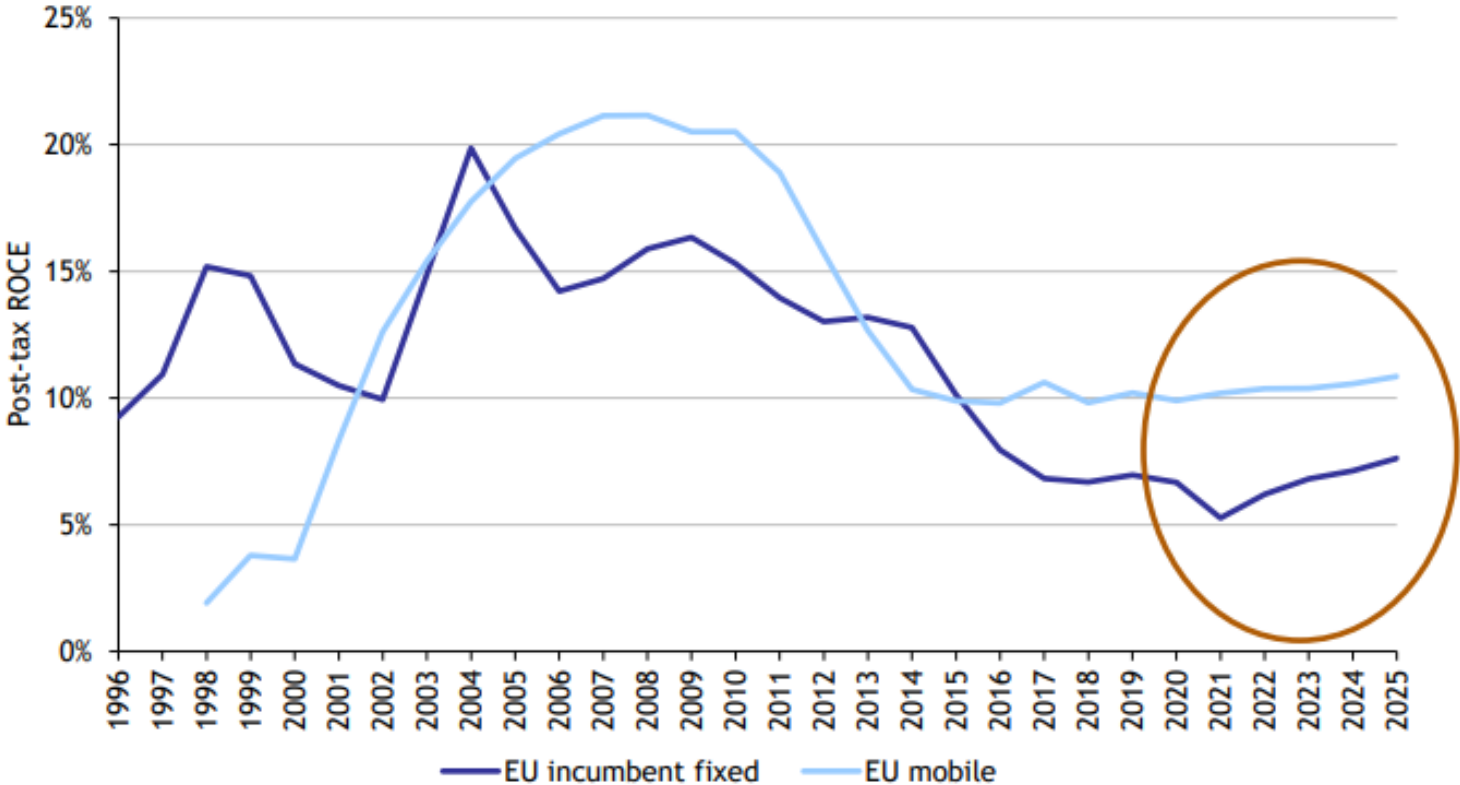
Source: NSR estimates



Sector outlook: Should allow for improving FCF and ROCE

EU Telecoms fixed and mobile post-tax ROCE

Source: NSR estimates

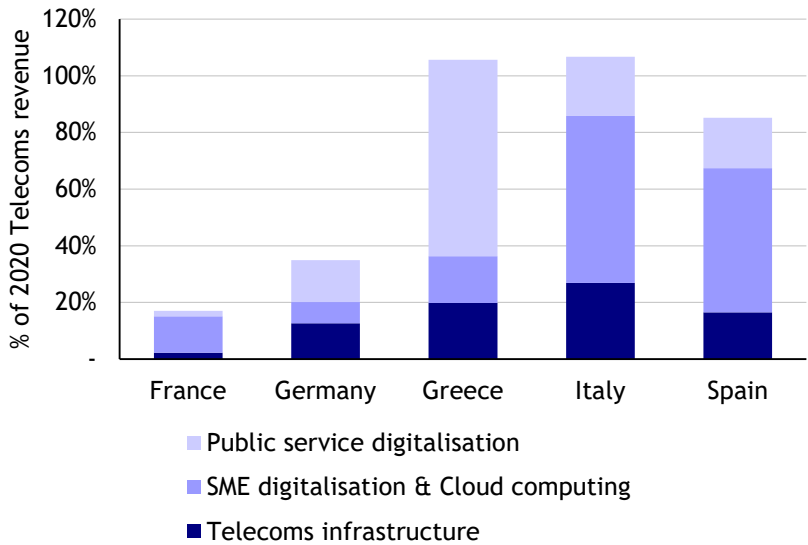


Returns bottoming out and gradually improving

Sector outlook: European Recovery Fund could be upside

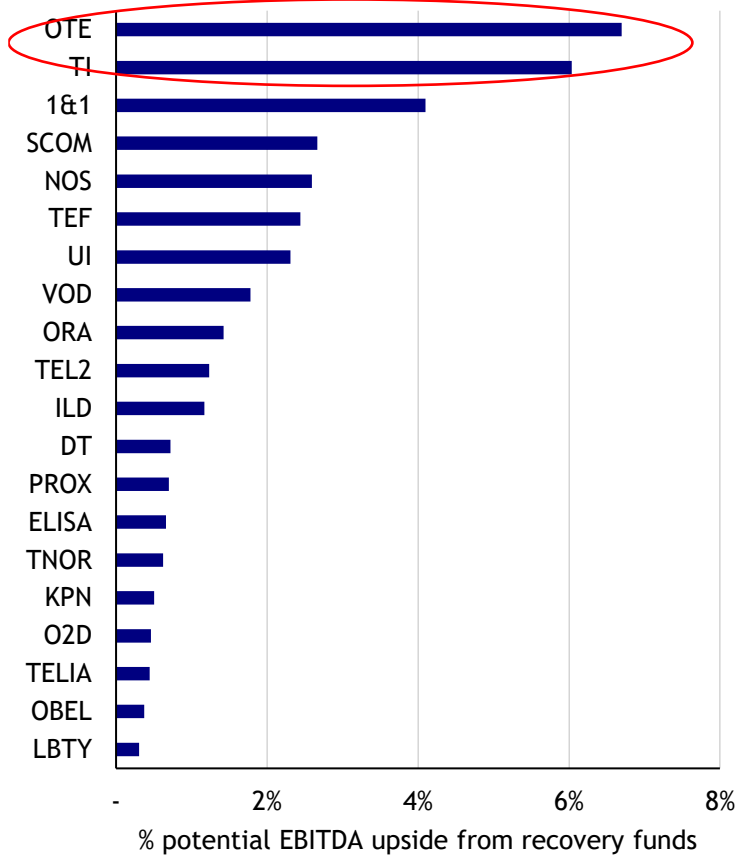
Southern European markets should be most exposed

Source: NSR estimates, [Deloitte](#)



Company exposure to ERF funding

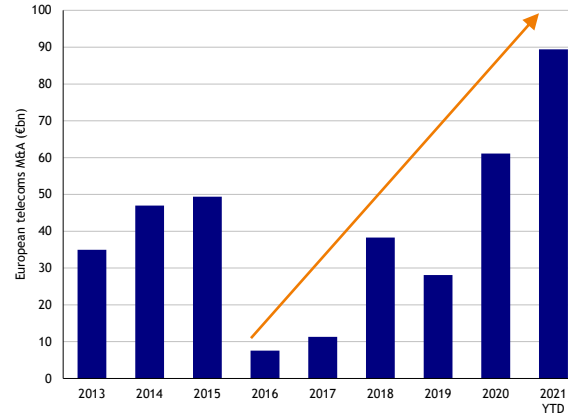
Source: NSR estimates



Sector outlook: Equity should re-rate, and if not, more M&A

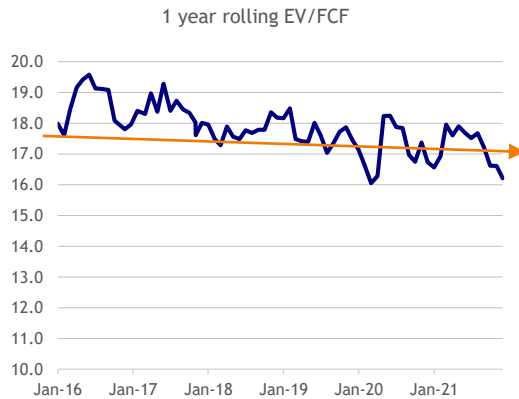
M&A volumes have been steadily rising since the low of 2016

Source: NSR estimates



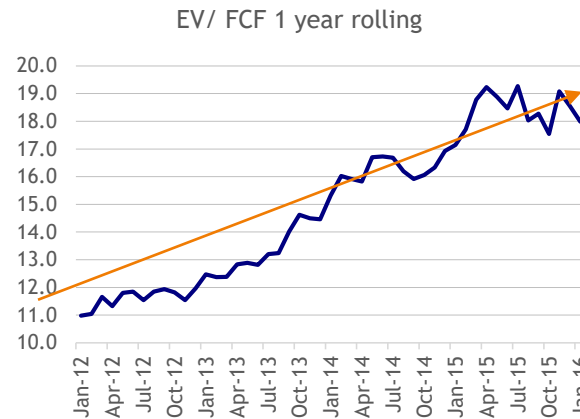
The sector multiple has hardly moved since 2016 (actually down)...

Source: NSR estimates



...but did move 2013-2015, during the last M&A boom...

Source: NSR estimates



...and still remains depressed relatively -

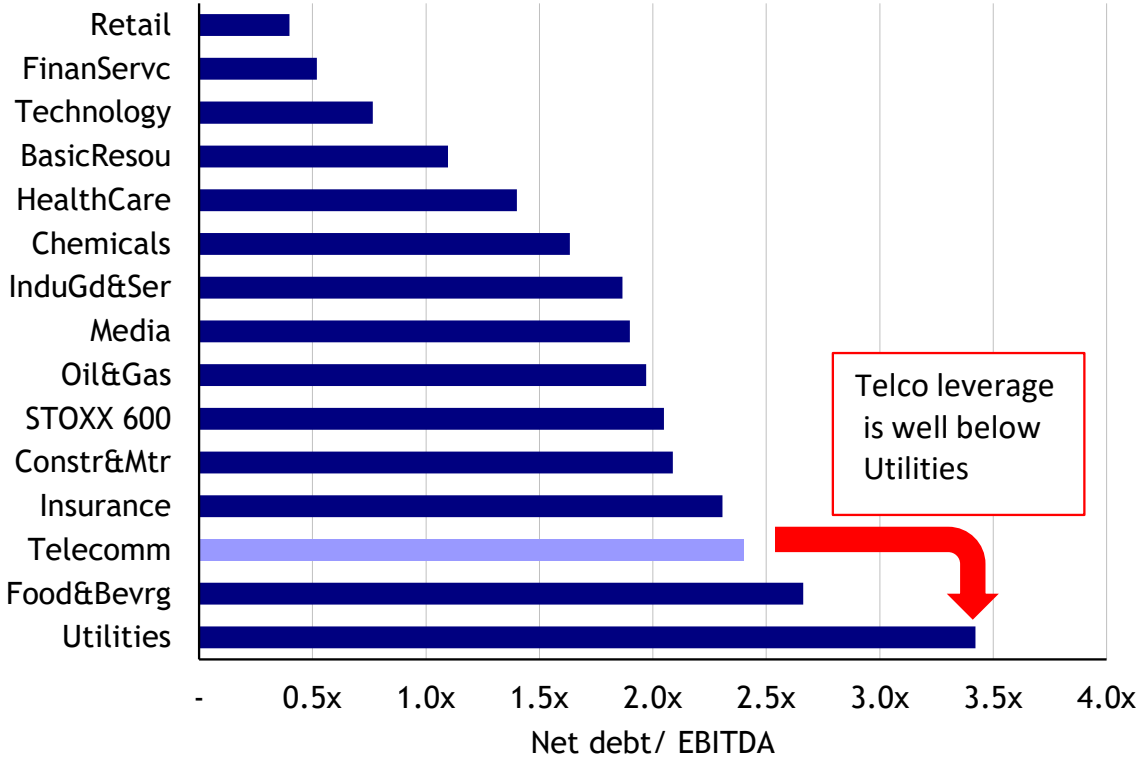
Source: NSR estimates



Sector outlook: Leverage could be higher

Net debt/EBITDA for STOXX sectors

Source: Factset, NSR estimates for Telecoms



Overbuilders: Could be a future opportunity for debt investors

FTTH overbuilders are likely to struggle to make attractive ROICs

Source: NSR estimates.

£		Urban MDU <i>Community, G.Network, Hyperoptic</i>	Urban SDU <i>CityFibre, FibreNation</i>	Rural <i>GigaClear</i>	Mix <i>VirginMedia</i>
<i>Example overbuilders:</i>					
Capex per premises passed	a	350	750	2,000	550
Cost to connect	b	100	250	600	350
Penetration %	c	22%	22%	50%	25%
Capex per sub	d=a/c + b	1,691	3,659	4,600	2,550
Less: public funding				(1,000)	
Capital invested per sub		1,691	3,659	3,600	2,550
Consumer ARPU	e	25	25	35	45
EBITDA %	f	40%	40%	60%	50%
Consumer EBITDA per sub	g=12×e×f	120	120	252	270
Business EBITDA uplift		10%	20%	10%	10%
Business EBITDA per sub		12	24	25	27
ROIC pre-tax	h=g/d	8%	4%	8%	12%
Tax rate	i	19%	19%	19%	19%
ROIC post-tax	j=h×(1-i)	6%	3%	6%	9%

ESG: High Yield names are laggards

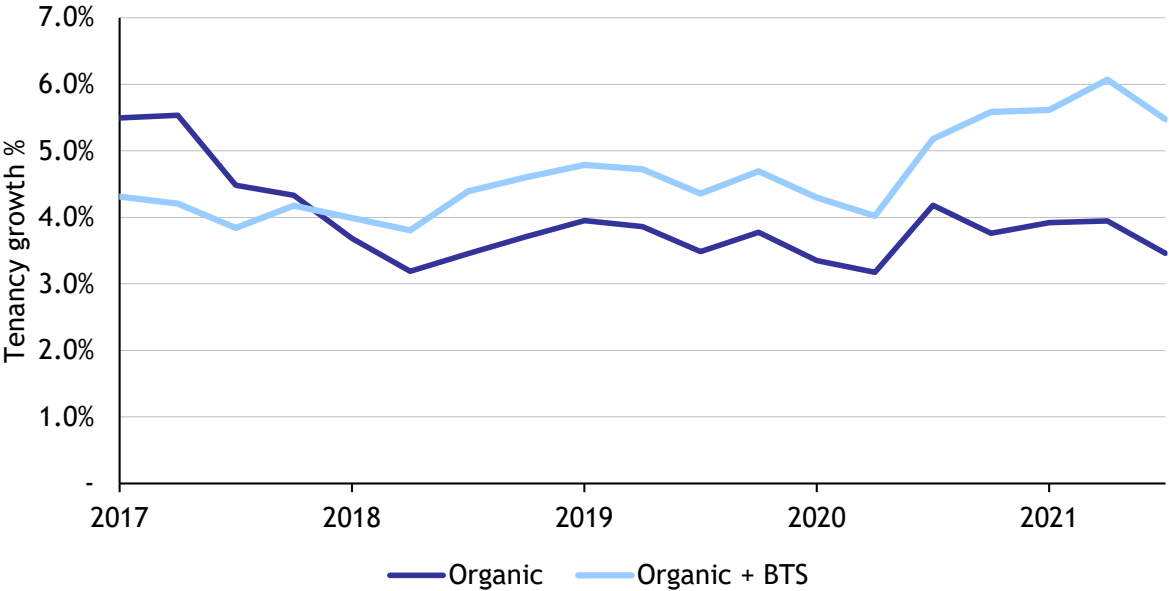
	2020	2021
	CDP Climate Score	CDP Climate Score
Altice France	Not rated	Not rated
Altice Int	Not rated	Not rated
Cellnex	A	A
Digi	B	B
eir	Not rated	Not rated
Ice Group	Not rated	Not rated
Iliad	Not rated	B
Inwit	Not rated	B
Masmovil	Not rated	Not rated
PPF Telecom	Not rated	Not rated
Salt	Not rated	Not rated
Sunrise-UPC	Not rated	C
TalkTalk	B	B-
TDC	Not rated	B
Telecom Italia	A-	B-
Telenet	A-	C
United Group	Not rated	D
Virgin Media 02	Not rated	Not rated
Vodafone-Ziggo	Not rated	Not rated
Average	C	C to B-
Wider sector average	B to A-	B to A-

Sector overview - Towers

Towers: Outlook

Aggregate EU Tower organic tenancy growth

Source: NSR estimates. Organic tenant net adds LTM, divided by average tenants LTM.



Towers: Leverage

European tower leverage

Source: NSR estimates. IAS17 basis

Net debt/ EBITDAaL	2021	2022	2023	2024	2025	2026
Cellnex	8.5x	7.3x	6.6x	6.0x	5.3x	4.4x
Inwit	6.0x	5.4x	4.7x	4.1x	3.7x	3.3x
Vantage	3.7x	3.6x	3.5x	3.1x	2.7x	2.2x

Towers: Could a VOD/ DT merger pass the regulators?

German tower market

Source: NSR estimates

	TowerCo					Total	VTWR+DFMG	% of total
	DFMG	VTWR	AMT	O2D	Other			
Sites	29,000	19,400	14,700	8,000	3,000	74,100	48,400	65%
DT	29,000	2,000	1,500	-	-	32,500		
Vodafone	6,800	19,400	1,800	-	-	28,000		
O2D	3,900	1,500	11,600	8,000	3,000	28,000		
Other	850	768	700	-	-	2,318		
Total tenants	40,550	23,668	15,600	8,000	3,000	90,818	64,218	
<i>Tenancy ratio</i>	<i>1.4x</i>	<i>1.2x</i>	<i>1.1x</i>	<i>1.0x</i>	<i>1.0x</i>	<i>1.2x</i>	<i>1.3x</i>	

Towers: Scaling synergies

Inwit/ Vodafone Italy towers 10-year merger synergies and split

Source: NSR estimates

Inwit/ Vodafone Towers	Network sharing		10- year FCF synergies			
	2020	2026	Unit cost saving (€k)	Cost saving (€bn)	Post-tax (€bn)	%
Macro sites (k)	22.3	24.5				
Passive sharing	10.0	21.3	150	1.7	1.2	
Active sharing	-	18.0	60	1.1	0.8	
Site decommissioning	-	1.1	75	0.1	0.1	
Total				2.9	2.0	100%
Accrued to Vodafone					0.8	40%
Accrued to Telecom Italia					0.8	40%
Accrued to Inwit/ Vodafone Towers					0.4	20%

Telecom Italia: Recent warning puts more pressure on debt metrics

Expected deleveraging slowed

Source: NSR estimates

	2021	2022	2023	2024	2025	2026
Net debt/ EBITDA	3.2x	3.5x	3.1x	2.9x	2.7x	2.6x
Prop. Net debt/ EBITDA	3.4x	3.7x	3.4x	3.2x	3.0x	2.9x

- Recent warning seems disproportionately high
- Unclear that KKR bid will actually proceed
- Could lead to creation of single network
- Broadband pricing pressure greater than expected
- Could be upside from voucher scheme and European Recovery Fund

Liberty Global: Preferred high yield name on the equity side....

How the Liberty Global equity story is built up

Source: NSR estimates

\$m	2021	2022	2023	2024	2025	2021-25 CAGR
EFCF (ex-synergies)	1,144	1,135	1,140	1,343	1,360	4%
Restructuring costs	-110	-118	-118	-109	0	
Sunrise synergies	26	85	145	222	239	
VMED-O2 synergies	48	78	141	199	234	
EFCF	1,109	1,181	1,308	1,655	1,834	13%
SHOUT (m)	568	521	476	436	401	
EFCF/ share (\$)	2.0	2.3	2.7	3.8	4.6	24%
P/ EFCF	15.1x	13.0x	10.7x	7.8x	6.4x	
EFCF yield	6.6%	7.7%	9.3%	12.9%	15.5%	

Liberty Global:but should still have balance sheet flexibility

UPC deleveraging and stable levels of cash at TopCo

Source: NSR estimates

\$m	2021	2022	2023	2024	2025
Cons. net debt/ EBITDA	3.7x	3.9x	3.8x	3.7x	3.6x
TopCo liquidity	2,940	2,294	2,209	2,341	2,423
Telenet net debt/ EBITDA	4.0x	4.1x	4.0x	4.0x	4.0x
UPC net debt/ EBITDA	5.3x	4.9x	4.6x	4.2x	4.1x
VMED-O2 net debt/ EBITDA	5.1x	5.0x	5.0x	4.9x	5.0x

Disclosures

12 month historical recommendation changes are available on request

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