Tech, Media & Telecoms
Sector Review – January

TMT Universe:
- Google
- Liberty Global
- Microsoft
- Portugal Telecom
- Vodafone

This month's detailed company review:
- Liberty Global

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1. Sector Overview

- January was a month full of rumors and deals reaching the TMT sector.
- Starting by the Tech industry, in only seven days, the Chinese technology giant Lenovo announced a $2.3bn transaction to acquire IBM's low-end server business and a $2.9bn deal to buy Motorola Mobility from Google.
- On one hand, with the IBM's deal, Lenovo will enforce its strategy in the PC market, positioning itself to take on Dell and H.P. On the other hand, the Motorola acquisition will help Lenovo to vault into the number 3 position in smartphones, just over passed by Apple and Samsung.
- In the Telecom sector Vodafone and Liberty Global were at the centre of deals talk. These companies are competing to buy Spain's largest cable operator, Ono, from its private equity owners.
- Liberty Global has been investing to increase its empire in Europe where it derives around 90% of its revenues. Spain is one of the few countries in Europe where Liberty has no operations. This month, Liberty acquired the Dutch cable operator Ziggo for €10bn, which is a signal of its desire to increase its empire.
- On the other hand, Vodafone has been investing in broadband assets in order to offer bundled services to clients and offload traffic from its mobile networks.

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TMT Sector vs. Overall market
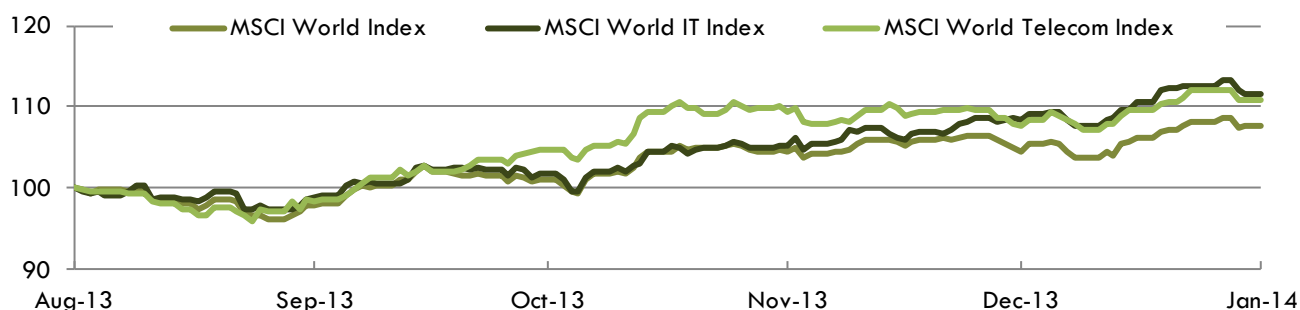
- During this period, the indexes that serve as benchmark for the TMT sector, specifically the Information Technology and Telecom sector, followed a similar path. From December to January the indexes slight increased due to the growth in the deal flow of these sectors, namely the acquisitions by Lenovo, Liberty Global and Google. Both sectors performed better than the MSCI World Index which shows the intensity of deals flow in the TMT industry.

3. Followed Companies

Google (Ticker: GOOG US)

- Google has been very active this month: It acquired Nest for $3.2bn, Deep Mind for $400mn and sold Motorola to Lenovo for $2.9bn. These deals can explain the upward trend of Google during the January month.


Price (USD):	↑	1,180.97
Target Price (USD):		1,310.00
Up/downside:		10.9%
Performance 3M:		14.6%
P/E Ratio:		31.8x
ROC/WACC:		1.6x

Microsoft (Ticker: MSFT US)

- Investors did not care so much about the fact that Microsoft has yet to choose a successor to the chief executive Steve Ballmer and focused on the announcement of better than expected quarterly results. With that, Microsoft's price slightly increased in January.
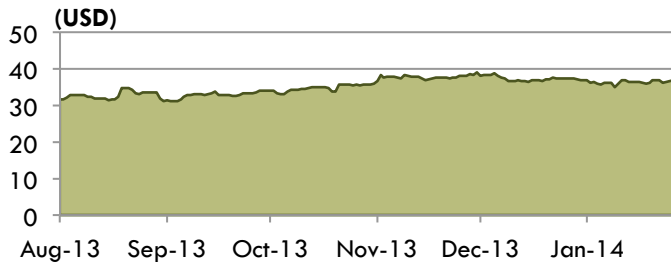
Price (USD):	→	37.84
Target Price (USD):		39.00
Up/downside:		3.1%
Performance 3M:		6.9%
P/E Ratio:		13.0x
ROC/WACC:		2.3x

Portugal Telecom (Ticker: PTC PL)

- Portugal Telecom announced that the services provided by the TMN brand will be replaced from now on for the MEO brand. With that, PT wants to use the MEO powerful brand which Zeinal Bava believes will enjoy, in a near future, 46.3 % share of the mobile phone market.

Price (EUR):	↑	3.27
Target Price (EUR):		3.45
Up/downside:		5.7%
Performance 3M:		-1.8%
P/E Ratio:		7.6x
ROC/WACC:		0.6x

Vodafone (Ticker: VOD LN)

- Vodafone's price witnessed a small increase in January in part due to the rumors about the AT&T desire to acquire the British company. Latest News revealed that they will not overtake within the next 6 months which in turn caused a slight drop. Besides that, Vodafone is competing with Liberty Global to buy Ono. Vodafone will receive $130mn from Verizon which turns this company even more attractive and powerful.

Price (GBP):	↑	226.55
Target Price (GBP):		240.00
Up/downside:		5.9%
Performance 3M:		0.9%
P/E Ratio:		6.0x
ROC/WACC:		2.1x

Source: Bloomberg (as of 05.02.2014)

3. Stock Analysis: Liberty Global

Corporate News

- Liberty Global has been on a strong run acquiring other European cable companies to compete with Vodafone over the cable market which is becoming increasingly interesting also for traditional TV and telecom companies to offer bundled services.

- Following the $16bn acquisition of Virgin Media Inc. last year and the latest agreement on the takeover of the Dutch cable operator Ziggo for $6.7bn, analysts believe that the Belgian Telenet Group along with its Spanish peer Ono could be next in line.

- Furthermore, Liberty Global seems to streamline its business by studying a spin-off of its Latin American business unit to become a purely European cable operator.
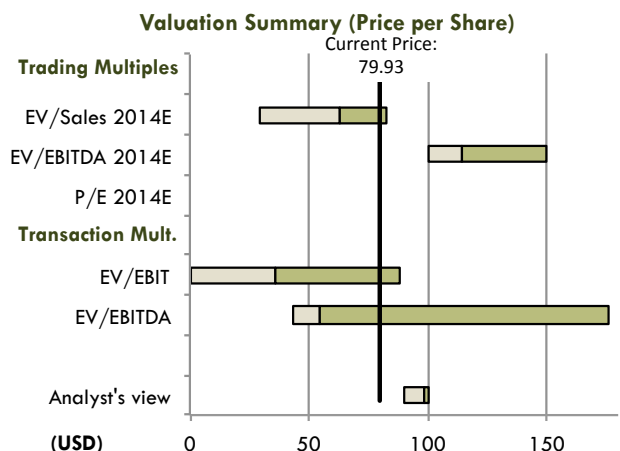
Market Performance

- The bullish outlook for the European cable industry along with its acquisition strategy and share buy back program contributed to the run up over the past months. Latest decline in stock is partly due to the deal structure with Ziggo and deteriorating net income as well as its increasing debt.

Valuation Summary

- Liberty Global is priced fairly according to the trading and transaction multiples chosen. The fact that the multiple for earnings before interest, taxes, depreciation and amortization shows a different picture is due to the company lately recording negative earnings. For the same reason P/E ratios cannot be compared to the stock price. However, being priced in the top 75th percentile range for Sales mirrors Liberty Global's chances to further expand in the European business segment by utilizing synergies from their acquisitions.

- Transaction Multiples show a very similar picture. Given the range of transactions chosen a wide range at the EBITDA multiple comes unsurprisingly.

Share Price
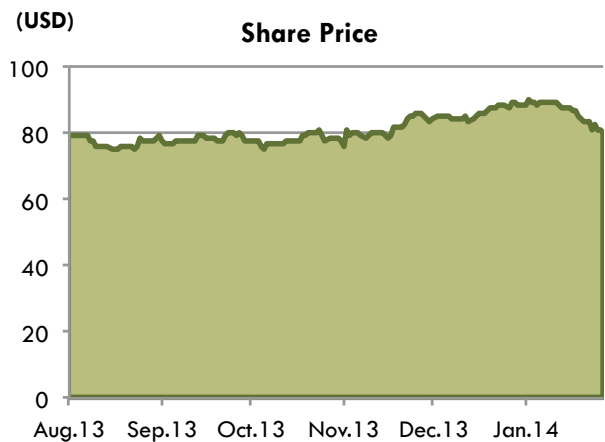
Liberty Global (USD)	
Current Price (03/01/2014)	79.93
52-week high % change	-12.1%
Median Target Price	95.31
Market Capitalisation (mn)	31,171
Return on Common Equity	-15.9%
Dividend Yield	N/A
Beta (vs. S&P500)	0.99
Total Debt/Equity	1320.1%

Valuation Summary (Price per Share)

Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales LTM	EV/Sales 2014E	EV/Sales 2015E	EV/EBITDA LTM	EV/EBITDA 2014E	EV/EBITDA 2015E	P/E LTM	P/E 2014E	P/E 2015E
Liberty Global	USD	31,136	72,430	5.6x	4.9x	3.9x	12.6x	10.9x	8.7x	N/A	N/A	76.7x
Comcast Corp.	USD	137,072	179,992	2.8x	2.6x	2.5x	8.4x	7.9x	7.4x	21.3x	18.3x	16.1x
Time Warner Cable Corp.	USD	37,241	61,772	2.8x	2.7x	2.6x	7.7x	7.4x	7.2x	20.2x	17.4x	15.5x
British Sky Broadcasting Group	GBp	13,788	15,362	2.0x	2.0x	1.9x	9.5x	9.2x	8.5x	15.8x	15.1x	13.3x
Directtv	USD	35,788	53,798	1.6x	1.7x	1.6x	6.8x	6.7x	6.4x	12.8x	13.4x	11.7x
Shaw Communications Corp.	CAD	11,134	16,122	3.1x	3.1x	3.0x	7.2x	7.1x	7.0x	15.8x	13.9x	13.7x
75th Percentile				3.0x	3.0x	2.9x	9.2x	8.8x	8.3x	20.2x	17.4x	15.9x
Median				2.8x	2.7x	2.6x	8.1x	7.7x	7.3x	15.8x	15.1x	14.6x
25th Percentile				2.2x	2.2x	2.1x	7.4x	7.2x	7.0x	15.8x	13.9x	13.4x

- Liberty Global is valued slightly above the range of its peer companies for Sales as well as for EBITDA multiple comparison. The slight gap might reflect better chances for Liberty due to its rigid acquisition strategy, strong financial power backed up by billionaire John Malone and buoyant market growth expectations.

- Decreasing multiples reflect high growth in sales and EBITDA whereas P/E multiple fails to have any significant explanatory power. Further notice is taken on the fact that Liberty Global is by far the most leverage company which again has a lot to do with their acquisitions in the past and exerts pressure on future performance of the company.

Precedent Transactions

Announced Date	Target Company	Target Country	Buyer Company	Buyer Country	EV (USD mn)	EV/EBIT	EV/EBITDA
07-May-12	Koninklijke KPN NV	NL	América Móvil	MX	2,657	4.8x	2.3x
26-Aug-12	National Mobile Telecommunications	US	Ooredoo QSC	QT	622	8.3x	5.7x
15-Oct-12	Sprint Communications	US	SoftBank Corp.	JPN	30,997	N/A	9.7x
14-Jun-13	Kabel Deutschland	GY	Vodafone Group	UK	8,641	24.2x	13.1x
05-Nov-13	Telefónica Czech Republic	CZ	PPF Group	NL	2,467	13.9x	5.3x
75th Percentile						16.5x	9.7x
Median						11.1x	5.7x
25th Percentile						7.4x	5.3x

- Clearly the best fit offers the acquisition of Kabel Deutschland by Vodafone last year. However, a acquisition premium values the German cable operator higher than Liberty Global. This can be attributed to a high degree of synergies resulting from that acquisition as well as the less price sensitive buyer behaviour of Vodafone.

- Other transactions chosen, correct the overall values downwards resulting in a median value which is below the companies current share price valuation. Keeping in mind that except for the acquisition of Sprint the targets had smaller enterprise value than Liberty Global corrects for a too optimistic view on the companies growth expectations. Nevertheless, they seem significantly higher than current market activity suggests as average.