

Tech, Media & Telecoms

Sector Review – November & December



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TMT Universe:

- Deutsche Telekom
- Google
- LinkedIn
- Portugal Telecom
- Twitter

This month's detailed company review:

- Twitter



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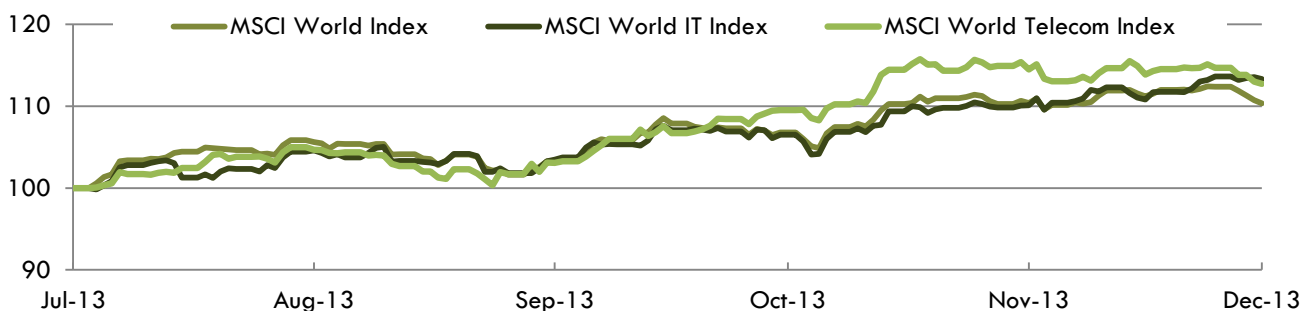
1. Sector Overview

- Latest CEA forecasts, revealed 1% declining technology sales for 2014 due to the missing growth drivers after a successful era of smartphones and tablets. Meanwhile, Russia's Yotaphone tries to challenge smartphone status quo and emerging Chinese brands fight middle class smartphone market alongside with the blue chip companies of that industry.
- The revenue-challenged European telecom sector causes further consolidation activity in late 2013 with Vivendi selling Maroc Telecom to Etisalat for €4.2bn and Telefónica selling its stake in Czech telecoms to PPF Group for €2.5bn. Also the investment story of South American market, namely Brazil, is expected to be dominated by consolidation in 2014 as Telecom Italia could sell off TIM Brazil to solve its debt issues.
- On the technology side, Twitter's IPO on the 6th of November caught a lot of media attention. Although offering above the indicated range with a share price of \$26 and a multiple of sales of 17, they still left \$1.6bn on the table. In contrast to its competitors Facebook and LinkedIn, Twitter was able to maintain a strong post IPO stock performance by currently trading above double the flotation price.

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Tech, Media and Telecoms Sector vs. Overall market



- During the considered six months period, the considered indexes that represent the worldwide IT market and the worldwide telecom market in comparison to the MSCI World Index. All kept up following similar trends, increasing more heavily in the latest month. Latest movements show telecom index closing below the IT index for the first time in a while.

3. Followed Companies

Portugal Telecom (Ticker: PT PL)

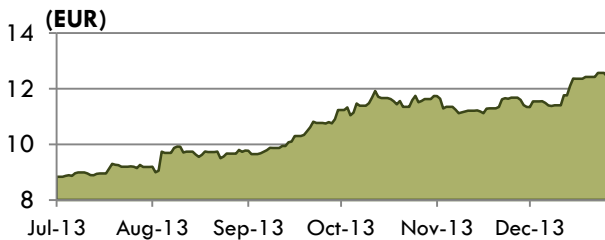
- 3rd quarter net profit of PT fell dramatically YoY by 66% to €21 mn but still managed to be well above analysts' consensus of only €4 mn. Possible explanations are slowly recovering home market and real's depreciation causing a drop in the company's stake in Oi.
- PT has established a partnership with Brazilian start-up Qranio.



Price (EUR):	↑	3.16
Target Price (EUR):		3.43
Up/downside:		8.4%
Performance 3M:		-7.1%
P/E Ratio:		8.1x
ROC/WACC:		0.6x

Deutsche Telekom (Ticker: DTE GR)

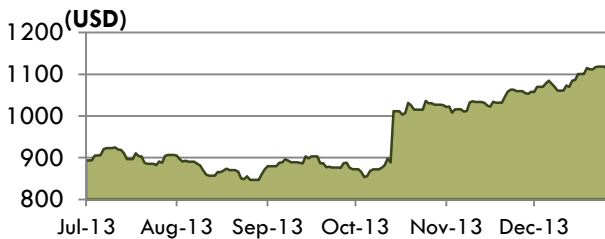
- Deutsche Telekom was able to beat markets expectations on earnings falling only 2.6% and thereby representing a stabilization of the German market and a turnaround with its US subsidiary. In November Deutsche Telekom sold 70% stake in Scout 24, a online ad company to a US-based private equity investor for €1.5 bn. Meanwhile, talks over a potential takeover of T-Mobile US by Softbank's unit Sprint are heavily discussed.



Price (USD):	→	12.43
Target Price (USD):		12.00
Up/downside:		-3.5%
Performance 3M:		15.1%
P/E Ratio:		22.6x
ROC/WACC:		0.6x

Google (Ticker: GOOG US)

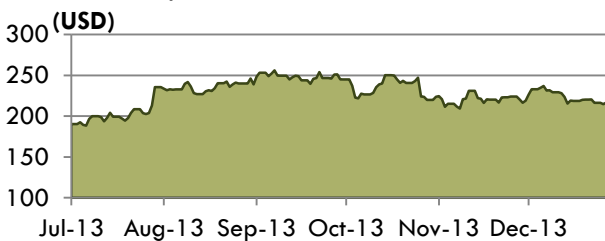
- In November and December, Google acquired eight advanced-robotics firms, that includes industry mainstay Boston Dynamics and Schaft among others. Last year, Amazon acquired Kika Systems and Apple spent \$10.5 bn on advanced manufacturing robots. This is evidence for how Google approaches its long term goals. Google maintained its upward trend during last two months which in part was due to the revenues from mobile advertising.



Price (EUR):	↑	1,120.71
Target Price (EUR):		1,220.00
Up/downside:		8.9%
Performance 3M:		26.3%
P/E Ratio:		32.7x
ROC/WACC:		1.0x

LinkedIn (Ticker: LNKD US)

- LinkedIn's shares have been rewarding well its investors due to its rapid growth. However, there are some threats that investors should bear in mind. First, LinkedIn's growth can attract new investors and consequently new incumbents can enter in the industry which may decrease the LinkedIn's revenues. Second, this growth comes mainly from emerging markets, which may not be easily monetized. This can be considered as evidence that LinkedIn is overpriced.



Price (GBP):	↑	216.83
Target Price (GBP):		272.50
Up/downside:		25.7%
Performance 3M:		-13.6%
P/E Ratio:		722.5x
ROC/WACC:		0.1x

3. Stock Analysis: Twitter

Corporate News

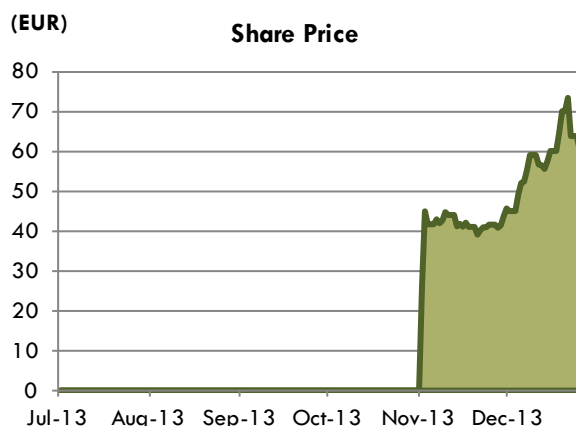
- In November we witnessed a very important event in the history of this company: Twitter's IPO. There were huge expectations around this event in part due to the previous Facebook's IPO.
- On 6th of November the initial offer price was set at \$26 and on the 7th of January the price peaked \$50.09 a share. Generally there is an initial underpricing phenomenon reaching the companies that become public. However, the Twitter's pop was around 73% which was extremely high.
- Due to this high initial underpricing many analysts considered this IPO as a really failure. However understandable in order not to replicate the IPO happenings of their peer Facebook.
- Original shareholders left money on the table because they set too low the offer price, which means that they could make much more money with this transaction.

Market Performance

- Twitter's performance witnessed an upward trend with the share price increasing so far. The technology companies are experiencing fast growth trends and Twitter was not an exception.

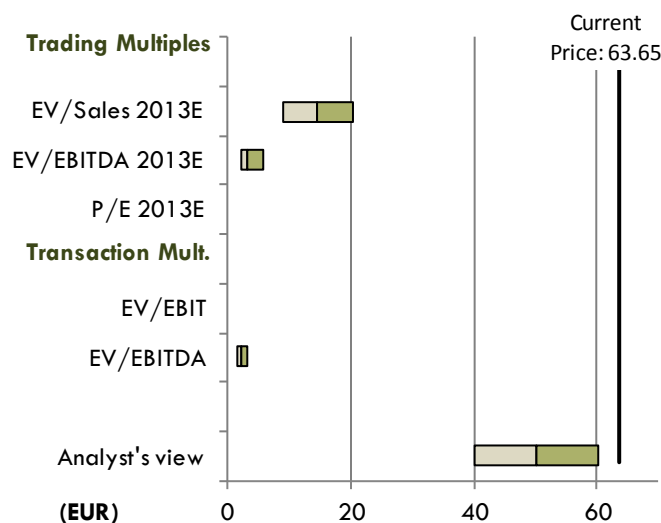
Valuation Summary

- Twitter is now overpriced when analysing both multiples and analysts' view. However, we can spot an enormous difference in this value when looking at these two metrics. The key for this event relies on the growth perspectives that analysts have on Twitter. They are expecting the firm to grow rapidly and this is not present on the multiples valuation.
- Analysing the multiples for a company that became public recently is very tricky. In part this happens because incumbent firms incur in large costs and consequently their profits are very low or even negative. This affects the multiples analysis.



Twitter (USD)	
Current Price (03/12/2013)	63.65
52-week high % change	-44.6%
Median Target Price	48.59
Market Capitalisation (mn)	35,611
Return on Common Equity	N/A
Dividend Yield	N/A
Beta (vs. S&P500)	N/A
Total Debt/Equity	18.3%

Valuation Summary (Price per Share)



Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E
Twitter	USD	35,611	36,323	N/A	56.8x	32.2x	N/A	691.8x	262.6x	N/A	N/A	N/A
Facebook	USD	143,852	135,099	16.7x	17.7x	12.9x	42.8x	29.8x	22.0x	134.8x	67.9x	50.3x
Google	USD	387,575	334,456	4.2x	7.0x	5.9x	19.3x	15.6x	13.0x	32.7x	26.3x	22.1x
LinkedIn	USD	25,880	23,608	19.6x	15.5x	10.9x	100.6x	63.4x	41.0x	722.5x	134.5x	97.2x
Xing	EUR	448	380	4.2x	4.6x	4.0x	14.0x	16.0x	12.6x	50.5x	42.7x	30.3x
Yahoo!	USD	39,959	36,846	6.4x	8.3x	8.1x	27.7x	24.6x	23.6x	34.1x	27.0x	23.8x
75th Percentile				16.7x	17.1x	12.4x	42.8x	55.0x	36.6x	134.8x	67.9x	50.3x
Median				6.4x	11.9x	9.5x	27.7x	27.2x	22.8x	50.5x	42.7x	30.3x
25th Percentile				4.2x	7.4x	6.4x	19.3x	18.1x	15.3x	34.1x	27.0x	23.8x

- When comparing Twitter's multiples against its peers' we have to consider that neither past performance (LTM) nor the Price-Earnings Ratio can be evaluated since Twitter was not able to gain any positive earnings so far.
- Tremendous differences are spotted when looking at the EV/EBITDA multiple even compared to the 75th Percentile. This can be attributed to the fact that Twitter recently floated and therefore estimates are highly volatile. Nevertheless, the enormous growth potential attributed to its business model cannot be neglected. Especially since similar outperformance is seen in EV/Sales.

Precedent Transactions

Announced Date	Target		Buyer		EV (USD mn)	EV/EBIT	EV/EBITDA
	Company	Country	Company	Country			
28-Sep-10	Seloger.com	FR	Axel Springer	GY	758	21.2x	17.6x
10-May-11	Skype	US	Google	US	8,500	411.6x	46.7x
01-Nov-11	Interclick	US	Yahoo!	US	234	29.3x	25.6x
15-Oct-12	Sprint Communications	US	SoftBank Corp.	JPN	30,997	N/A	9.7x
05-Feb-13	Virgin Media	US	Liberty Global	US	21,627	19.7x	8.4x
75th Percentile						124.9x	25.6x
Median						25.3x	17.6x
25th Percentile						20.8x	9.7x

- As for trading multiples, transaction multiples fail to value the share price of Twitter accordingly. Among others, Barclay's analysts commented on a possible sign that investors are moving out of line with fundamentals. After experiencing LinkedIn's post-IPO performance investors seem determined not to miss out on another underestimated social media company.
- The acquisition of Skype by Google offering the closest multiple comparison cannot reach current valuation of Twitter. Hence, Twitter will need to prove that they can turn their business model into profitably operating company in the near future in order to meet investors expectations.