

Tech, Media & Telecoms

Sector Review – September & October



www.novainvestmentclub.com

1. Sector Overview

- As demanded by UK prime minister David Cameron, the EU postpones restrictive changes on EU data law regarding customer data sharing. This is considered a win for tech giants like Facebook and Google.
- Consolidation of the highly segmented Indian telecom market is undermined by the latest draft of M&A policies, making it little attractive to acquire smaller companies. However, two major players, namely Vodafone and SingTel, buying out minority interest in its Indian units. Different picture is drawn for the Latin American market where Telecom Italia is expected to put its Brazilian subsidiary Tim for sale. Three potential buyers stand in line for the sale that will suspiciously overlooked by Anatel.
- Now history is Dell's listing on the NASDAQ. The last decade largest PC maker completed \$24.9 billion LBO to Michael Dell and private equity company Silver Lake end of October. Further dealmaking activity came from Verizon's \$130bn deal to acquire Vodafone's stake in their US wireless joint venture, which is expected to be prosecuted early next year.
- The next months offer more recent activities on the markets. M&A activity coming from the messaging platform Twitter is expected to start as early as mid-November, after going public on the 6th of November. In three weeks time Nokia's shareholder will decide on the \$5.4 bn deal with Microsoft.

Financial Institutions Universe:

- Portugal Telecom
- Deutsche Telekom
- LinkedIn
- Google
- Hewlett-Packard

This month's detailed company review:

- Portugal Telecom

Bjorn Schulmeister

bjorn.schulmeister@novainvestmentclub.com

Miguel Reis

miguel.reis@novainvestmentclub.com

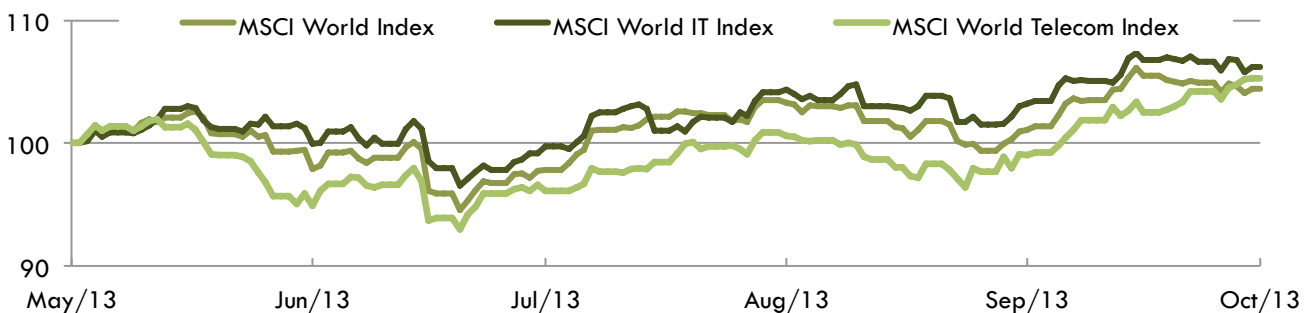
Sofia Pavão

sofia.pavao@novainvestmentclub.com

Table of Contents

- Sector Overview
- Universe News
- Detailed review: PT

Tech, Media and Telecoms Sector vs. Overall market



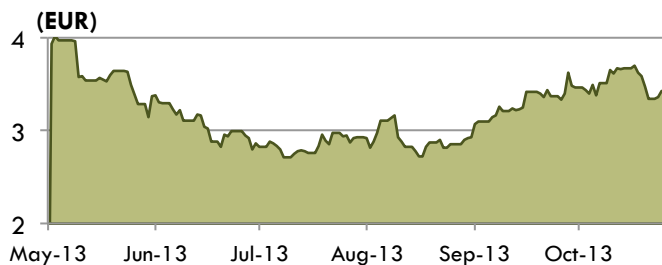
- During the considered six months period, the considered indexes that represent the worldwide IT market and the worldwide telecom market in comparison to the MSCI World Index. All kept up following similar trends, increasing more heavily in the latest month. Latest movements show telecom index closing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

3. Followed Companies

Portugal Telecom

(Ticker: PT PL)

- Downgrading continues in the past months. Fitch downgraded the companies long-term rating from BBB to BBB-.
- The 2nd quarter result beats net profit forecasts, driven by an unexpectedly high capital gain of 310 million euros from the sale of the stake in CTM to CITIC. However, EBITDA and revenues declined by 13,8% and 5,5% respectively due to unfavourable macroeconomic conditions in its home Portuguese market. Subsequently, dividend policy was changed for FY 2013 and 2014, resulting in an annually paid cash dividend of 0,10 euro.
- PT engaging in a commercial partnership with VeliQ, offering VeliQ's mobility platform as a Service Solution to its enterprise customers. Furthermore, a strategic alliance agreement was announced between CITIC Telecom and PT, among other reasons, to identify ITC investment opportunities.
- Vodafone announced changes to its organizational structure in Europe in order to accelerate the commercial strategy and improve customer experience, being a concern for PT's home Portuguese market.

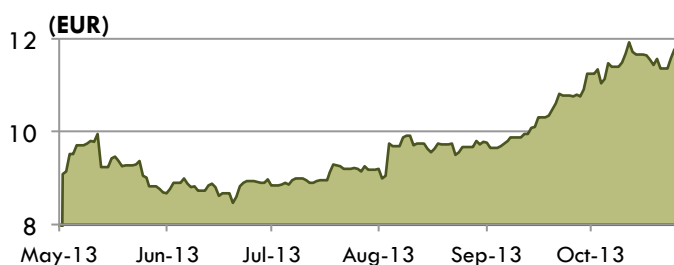


Price (EUR):	→	3.33
Target Price (EUR):		3.40
Up/downside:		2.3%
Performance 3M:		15.8%
P/E Ratio:		7.1x
ROC/WACC:		0.6x

Deutsche Telekom

(Ticker: DTE GR)

- After reporting its first successful quarter in three years with an increase in sales of 5,5% compared to last year's quarter, stock price reached a 5-year high. Most notable increase in revenues come from the US unit, being a result of the consolidation with MetroPCS and strong handset sales.
- In line with the group's business goals to secure strong cash flows, the Greek subsidiary OTE sold Globul to the Norwegian Group Telenor for 717 million euro at a 6x 2013E EBITDA multiple.
- Telefonica's deal with Dutch KPN to buy the German mobile unit E-Plus for 5 billion euro plus shares could shake up the market weights. Combined, Telefonica's O2 and E-Plus would serve more customers than T-Mobile or Vodafone.
- The takeover of Kabel Deutschland by Vodafone is said to not affect the wholesale agreement with Deutsche Telekom.

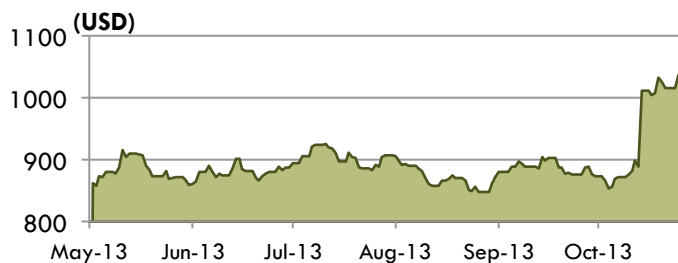


Price (USD):	↓	11.56
Target Price (USD):		10.90
Up/downside:		-5.7%
Performance 3M:		26.4%
P/E Ratio:		N.A.
ROC/WACC:		0.0x

3. Followed Companies

Google (Ticker: GOOG US)

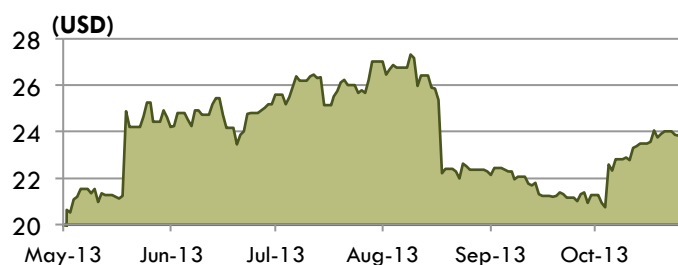
- In early June Google sealed the acquisition of Waze, an Israeli mapping start-up for an undisclosed sum, estimated to be around 1,3 billion USD.
- Google missed to meet Wall Street's consensus on EPS and sales. One reason was the increase in operating expenses from 33% in Q2 2012 to 35% of its revenues in Q2 2013. On the bright side, revenues of its Motorola division increased. Nevertheless Motorola is still not able to generate profit from its operations, reporting a net loss of 342 million USD.
- The announcement of Microsoft acquiring Nokia's Handset Business for 7,2 billion USD did not have immediate effect on the stock price of Google but could impose a stronger competition on the smartphone market, so far dominated by Apple and Google's android platform.
- July's comScore web traffic ranking put Yahoo! in front of Google comparing unique users. However the competitor was not able to profit from this comeback in monetary terms.



Price (EUR):	↑	1,030.58
Target Price (EUR):		1,100.00
Up/downside:		6.7%
Performance 3M:		16.1%
P/E Ratio:		28.8x
ROC/WACC:		1.1x

Hewlett-Packard (Ticker: HPQ US)

- A series of contracts were sealed in the past three months, including a 220 million USD Medicaid contract with Indiana, a 166 million USD contract with Centers for Medicare & Medicaid Services (CMS), as well as a 3,45 billion USD deal with the U.S. department of the Navy on its Next Generation Enterprise Network (NGEN).
- HP published third quarter results, slightly short of wall street expectations. Revenue growth targets were abandoned for 2014 and the CEO signaled a return to acquisitions first time after 2011 in order to find new pockets of growth.
- Management changes followed the announcement of the third quarter results, stating that Enterprise Group chief Dave Donatelli and marketing chief Marty Homlish have been shifted out of their positions.



Price (EUR):	→	24.37
Target Price (EUR):		25.00
Up/downside:		2.6%
Performance 3M:		-5.1%
P/E Ratio:		15.4x
ROC/WACC:		0.8x

3. Stock Analysis: Portugal Telecom

Corporate News

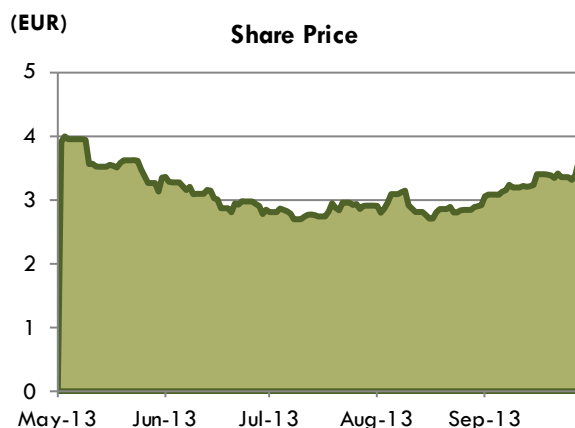
- Oi SA will merge with Portugal Telecom SGPS SA and this will create a trans-Atlantic carrier with 100 million customers that will help Oi to be more competitive against Telefonica SA and America Movil SAB. Shareholders of Oi will own the majority of the combined company after the transaction and Portugal Telecoms' investors will get 38 percent of the new Brazil-based entity.
- The merger will create annual combined sales of roughly \$17 billion, that would be positioned to take advantage of the growth in Latin America as Europe's phone market shrinks. This merger will also generate cost savings and additional revenue valued at about 1.8 billion euros.

Market Performance

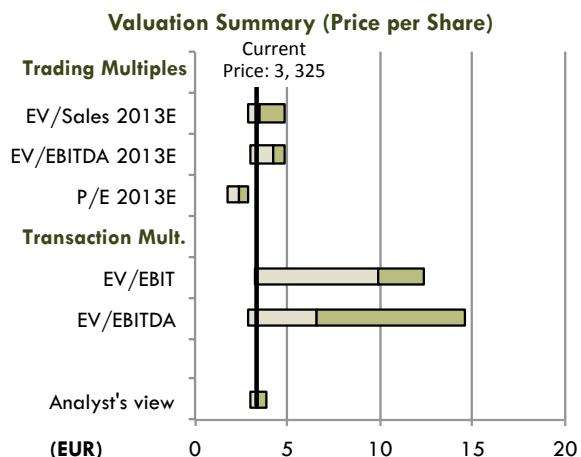
- In August 14th the results of the second quarter of Portugal Telecom went out and there were some negative surprises that negatively affected the price of the stock and consequently there was a drop in the price. With the recent news about the merger between Portugal Telecom and Oi S.A. we witnessed a recovery process with the price of the stock increasing so far.

Valuation Summary

- In line with the market performance and latest developments the current price of PT is in the lower range compared to Sales and EBITDA multiples of peers. However, the P/E ratio indicates an overly optimistic valuation.
- Comparing the transaction multiples completes the picture drawn above. Considering that Portugal Telecom is still facing difficult macroeconomic situation in its home market, being on the lower range seems reasonable.



Portugal Telecom (EUR)	
Current Price (03/10/2013)	3.48
52-week high % change	-21.9%
Median Target Price	3.62
Market Capitalisation (mn)	2,998
Return on Common Equity	18.7%
Dividend Yield	9.7%
Beta (vs. S&P500)	1.2x
Total Debt/Equity	388.9%



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
Portugal Telecom	EUR	2,998	11,451	1.8x	1.9x	1.9x	5.5x	5.6x	5.8x	8.3x	10.6x	20.5x
Zon Optimus	EUR	2,663	3,414	2.2x	3.5x	2.6x	10.7x	9.6x	6.9x	38.4x	33.6x	24.5x
Telefónica	EUR	58,754	118,177	1.7x	2.1x	2.1x	5.8x	6.1x	6.1x	17.5x	13.0x	12.3x
Telecom Itália	EUR	13,263	48,118	1.6x	1.8x	1.8x	4.3x	4.5x	4.6x	36.6x	7.0x	7.6x
KPN	EUR	10,244	19,933	1.8x	1.7x	1.8x	5.1x	5.1x	5.5x	54.6x	15.6x	17.8x
Deutsche Telekom	EUR	52,212	102,249	1.5x	1.7x	1.7x	5.8x	6.0x	5.8x	11.3x	18.4x	16.8x
75th Percentile				1.8x	2.0x	2.0x	5.8x	6.1x	6.0x	38.0x	17.7x	19.8x
Median				1.8x	1.8x	1.9x	5.6x	5.8x	5.8x	27.0x	14.3x	17.3x
25th Percentile				1.6x	1.7x	1.8x	5.2x	5.2x	5.6x	12.9x	11.2x	13.4x

- When analyzing the comparable companies, it is relevant to compare PT's trading multiples not only with the median of the industry, but also with some peers. The PT Price to Earnings ratio (10.6x) is lower than the median of the industry (14.3x), thus we can conclude that PT has lower perspectives of growth for 2013 than its peers. However, if we take in consideration the forecasts for 2014 the conclusion is the other way around, because PT P/E, 20.5x, are higher than the median of the industry, 17.3x. The EV/Sales and EV/EBITDA of Portugal Telecom are really close to the median of the industry, however Zon Optimus, the main peer of PT, is witnessing higher values in both multiples than the industry. With that, we can conclude Zon Optimus has higher perspectives of growth than PT.

Precedent Transactions

Announced Date	Target		Buyer		EV (USD mn)	EV/EBIT	EV/EBITDA
	Company	Country	Company	Country			
24-Jun-13	Kabel Deutschland	DTC	Vodafone	UK	11,186.52	24.2x	13.1x
15-Dec-04	New Cingular Wireless Services Inc.	US	AT&T	US	46,744.55	36.1x	10.4x
07-Nov-06	America Telecom	US	America Móvil	MXC	34,698.01	11.1x	6.8x
15-Jun-12	Telekom Austria	AUS	America Móvil	MXC	1,115.38	27.4x	3.7x
02-Oct-13	Portugal Telecom	PT	Oi S.A	BRZ	14,297.19	15.5x	5.2x
75th Percentile						27.4x	10.4x
Median						24.2x	6.8x
25th Percentile						15.5x	5.2x

- Bearing in mind that transactions of AT&T and Vodafone have targets in flourishing markets, the gap on EV/EBITDA as well as on EV/EBIT compared to the multiples of Oi seem reasonable. Furthermore, the market perceived the acquisition as a future investment that has first to prove itself. The latest transaction proves high frequency of dealmaking activity in the Brazilian market as mentioned in the overview section.
- America Móvil's attempt to establish a European footprint is represented by the transaction above and ongoing the news about a possible increase in the takeover bid for the Dutch KPN.
- Clearly the most valuable transaction listed is the acquisition of New Cingular Wireless Services Inc. having major impact on the EBIT multiple. In terms of EBITDA multiple the acquisition of Kabel Deutschland by Vodafone is by far the most significant.