

# Tech, Media & Telecoms

## Sector Review – March



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### 1. Sector Overview

- In the first quarter of 2014, the TMT sector has been in the top of Mergers & Acquisitions activity, accounting for roughly one-third of the \$593bn of M&A deals announced, which is the highest value since 2006. This represents around 29% share of global M&A activity, which is more than double the 12% achieved a year earlier. In fact, this trend can be explained by the fact that three of the five major transactions accomplished in this quarter, have been in the TMT sector
- Regarding the regions where these deals have been taking place, it should be noted that \$278bn was spent in the US, compared with \$159bn in Europe and \$99bn in Asia. Will this bias towards United States remain during the year? In reality, the first quarter witnessed two of the largest transactions – Vodafone's acquisition of Spain's Ono for €7.2bn and Liberty Global's purchase of Dutch cable operator Ziggo for €10bn – taking place in Europe, which may be seen as a return to form.
- In fact, M&A activity can be driven by fashion movements, as it happened during the dot-com bubble at the end of 1990s. However, this upward trend in TMT deals can be, in part, explained by some characteristics of these companies: They have excess cash, which allow them to allocate their money acquiring new companies, taking advantages of profitable opportunities; they may have low P/E multiples amongst large-cap companies, which seem they may be underpriced and consequently are a good opportunity to invest; and they face an accelerating pace of disruption, that makes them attractive targets.

#### TMT Universe:

- Facebook
- Google
- Microsoft
- Portugal Telecom
- Vodafone

#### This month's detailed company review:

- Vodafone



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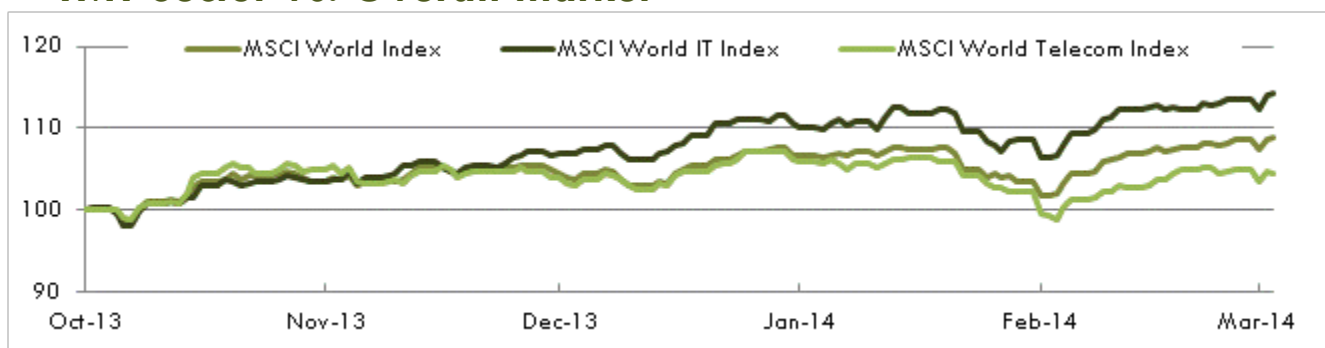
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### Table of Contents

1. Sector Overview
2. Universe News
3. Detailed review: Vodafone

### TMT Sector vs. Overall market



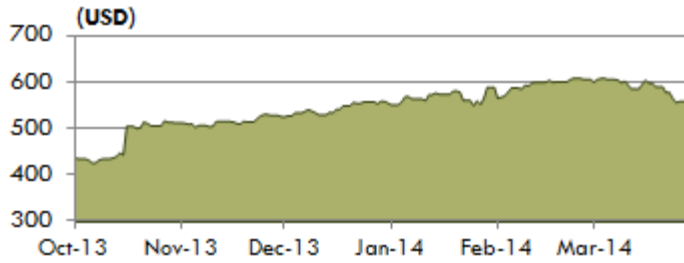
- During this period, namely in the first quarter of 2014, there was a rush in TMT M&A activity, where it goes up 65% year on year. Having 3 of the 5 largest deals taking place in the TMT sector, brought the industry to this comfortable position. On the other hand, there was a drop in activity in the energy, mining and utilities sector, and slower growth in consumer industry deals, because there is still caution regarding the economic recovery.

## 2. Followed Companies

### Google

(Ticker: GOOG US)

- Some tech companies, including Google, have been considering the idea of expanding their activity towards the television segment. In addition, tech companies are following a fashionable event, betting in eyeglass companies. The goal is to turn glasses into a fashion accessory rather than associating it with a "glasshole". Google, developed a partnership with Ray-Ban and Oakley.

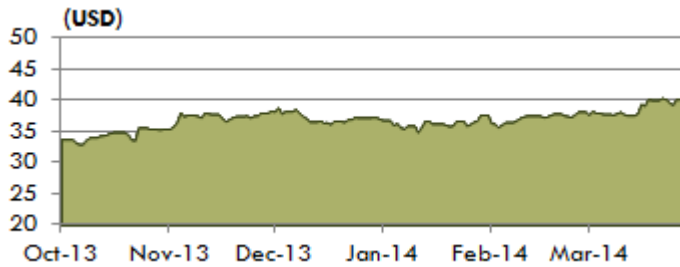


Price (USD):	↑	557.80
Target Price (USD):		663.14
Up/downside:		18.9%
Performance 3M:		-0.6%
P/E Ratio:		30.9x
ROC/WACC:		1.3x

### Microsoft

(Ticker: MSFT US)

- The new chief executive Satya Nadella, decided to give away Microsoft software for smartphones. This is a decision to keep Microsoft alive in the high competition environment faced nowadays, with Apple and Google.

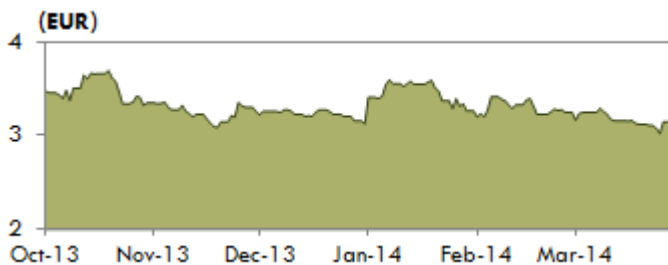


Price (USD):	→	40.99
Target Price (USD):		40.00
Up/downside:		-2.4%
Performance 3M:		9.6%
P/E Ratio:		14.3x
ROC/WACC:		2.3x

### Portugal Telecom

(Ticker: PTC PL)

- The official regulator authority from Brazil (ANATEL) has approved the merger of Oi and Portugal Telecom, which is a formal step to conclude this merger. The company has also announced its desire to pay dividends of €0.10 per share during this year.

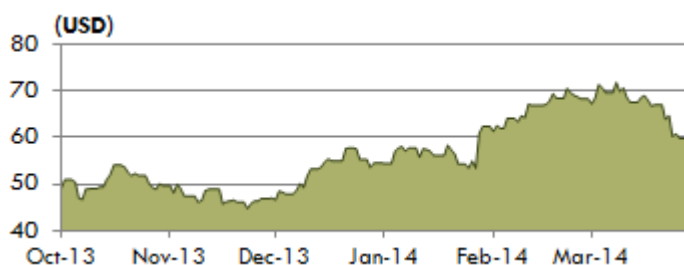


Price (EUR):	↑	3.09
Target Price (EUR):		3.50
Up/downside:		13.4%
Performance 3M:		-2.3%
P/E Ratio:		8.4x
ROC/WACC:		0.6x

### Facebook

(Ticker: FB US)

- Facebook has acquired this month the Google glass rival, Oculus VR, for \$2bn (\$400 million in cash and 23.1 million shares of Facebook common stock). Many analysts within the tech industry believe wearable devices could be the next big platform change. Thus, Facebook is investing in this maker of virtual-reality glasses for gaming, which may be an important step towards its future success.



Price (USD):	↑	60.24
Target Price (USD):		73.00
Up/downside:		21.2%
Performance 3M:		10.2%
P/E Ratio:		100.4x
ROC/WACC:		1.2x

### 3. Stock Analysis: Vodafone

#### Corporate News

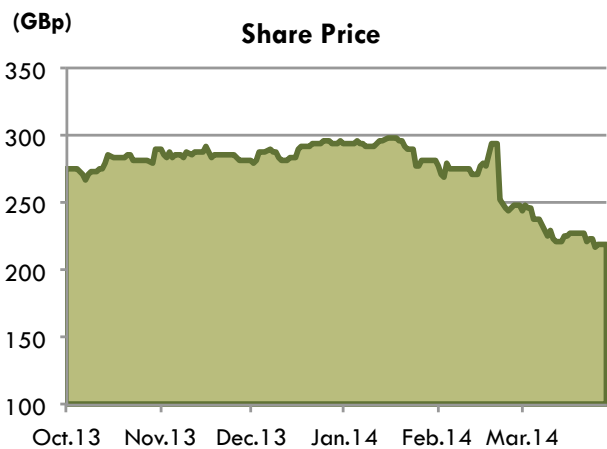
- On March 17th Vodafone announced to merge with Ono, the Spanish cable group at a price of €7.2bn (including debt). This price reflects a 7.5 times 2013 EBITDA and 10.4 times FCF acquisition and thus cannot be said to be overpriced according to FT. According to Berenberg this deal cannot also be considered a bargain. Reasons for the merger are almost uniform with telecom mergers in general and therefore no surprise: Offering Bundle packages and cost savings through consolidation of the mobile units are among the most significant reasons. The extension of Vodafone's fixed-line network helps to augment the mobile operations. Hence, revenue synergies are said to €1bn according to Vodafone.
- The latest acquisition is in line with the CEO's aspiration to lead Vodafone towards a unified communication company. Further acquisitions are said to be possible. Furthermore, the British company launched a £7bn capital expenditure program to add next generation mobile and fixed-line services. According to analysts future focus lies on Italy, the third biggest European market after UK and Germany.

#### Market Performance

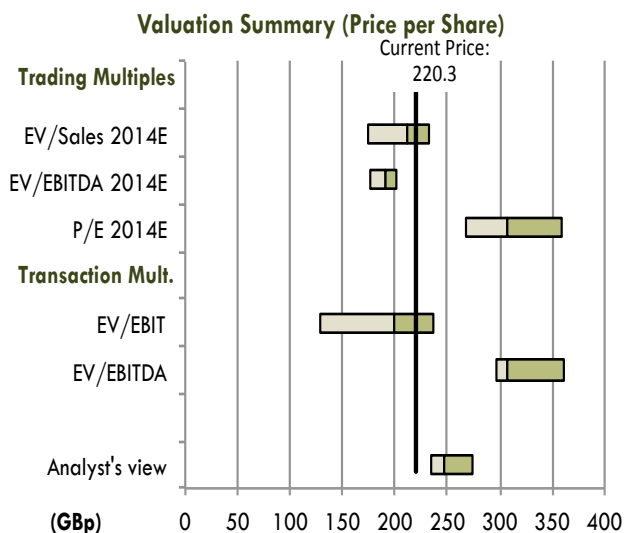
- Share price dropped in the light of earlier March announcements that AT&T will not place a bid for Vodafone and rumours intensified regarding a bid of Vodafone for Ono. However, after the announcement of the acquisition stock price rallied upwards slightly, eventually closing just above the LTM low at 220.3 GBp.

#### Valuation Summary

- Transactions currently fairly price Vodafone with regards to EBIT multiples of comparable transactions. However EBITDA is much higher than the price indicates. The P/E Ratio reveals a similar picture. Here comparable companies like Telefónica and Deutsche Telekom outperform Vodafone probably because of its huge acquisitions that will take time to turn into growth.



Vodafone (GBp)	
Current Price (31/03/2014)	220.30
52-week high % change	-12.7%
Median Target Price	257.18
Market Capitalisation (mn)	57,348
Return on Common Equity	26.7%
Dividend Yield	18.9%
Beta (vs. S&P500)	0.89
Total Debt/Equity	57.3%



## Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2014E	2015E	LTM	2014E	2015E	LTM	2014E	2015E
Vodafone	GBP	58,168	82,950	3.1x	1.9x	1.9x	6.6x	6.5x	6.5x	11.1x	15.4x	21.6x
Deutsche Telekom AG	EUR	51,834	100,902	1.7x	1.7x	1.6x	6.0x	5.8x	5.6x	31.1x	17.9x	16.2x
Telefonica SA	EUR	53,110	108,012	1.9x	2.0x	2.0x	5.7x	6.0x	5.9x	11.9x	12.3x	11.6x
BT Group PLC	GBP	30,313	38,194	2.1x	2.1x	2.1x	6.3x	6.3x	6.1x	14.6x	14.4x	13.2x
Koninklijke KPN NV	EUR	10,919	20,690	2.0x	2.4x	2.4x	6.2x	7.0x	7.1x	36.2x	29.1x	16.3x
Orange SA	EUR	28,807	62,058	1.4x	1.6x	1.6x	5.0x	5.1x	5.2x	12.0x	11.5x	11.5x
75th Percentile				2.0x	2.1x	2.1x	6.3x	6.4x	6.4x	27.0x	17.3x	16.3x
<b>Median</b>				<b>1.9x</b>	<b>2.0x</b>	<b>1.9x</b>	<b>6.1x</b>	<b>6.2x</b>	<b>6.0x</b>	<b>13.3x</b>	<b>14.9x</b>	<b>14.7x</b>
25th Percentile				1.8x	1.7x	1.7x	5.8x	5.9x	5.7x	11.9x	12.8x	12.0x

- Vodafone's Sales Multiple is pretty much in line with the median of the comparable companies. Since the variations are rather insignificant in this industry, this comes with no surprise. After KPN, Vodafone has the second highest valuation in EBITDA.
- The strong P/E ratio reflects the expected growth of Vodafone compared to its peers. Certainly this is due to the strong acquisitions that are expected to lead to future growth. Unless for 2014E where KPN and Deutsche Telekom can keep up with growth expectations, the 2015 estimate is unseen within the peer group.

## Precedent Transactions

Announced Date	Target		Buyer		EV (USD mn)	EV/EBIT	EV/EBITDA
	Company	Country	Company	Country			
05-Feb-13	Virgin Media	US	Liberty Global	US	21,627	19.7x	8.4x
14-Mar-14	SFR SA	FP	Altice SA	NA	11,750	4.7x	4.6x
15-Oct-12	Sprint Communications	US	SoftBank	JP	39,739	N/A	9.7x
05-Mar-06	BellSouth	US	AT&T	US	83,105	16.8x	9.7x
13-Feb-14	Time Warner Cable	US	Comcast	US	68,405	14.6x	8.6x
75th Percentile						17.5x	9.7x
<b>Median</b>						<b>15.7x</b>	<b>8.6x</b>
25th Percentile						12.1x	8.4x

- Latest announced bids by Comcast and Altice, both in the course of a bidding war represent good estimates for the valuation of Vodafone since they are moving towards cable operating business in order to provide fixed-line services such as TV. Generally higher multiples are obtained for US market acquisitions, showing the huge potential of the market compared to acquisitions done in fragmented continental Europe.
- Still, valuations show a mixed picture regarding Vodafone. This might be due to the high growth potential seen in the acquisitions listed that do not coincide with Vodafone's view. Looking at SFR would probably be a much better fit than into cable or media companies in the US.