

Tech, Media & Telecoms

Sector Review – April

1. Sector Overview

- In early April the tech sell-off around financial markets continued. While some tech-giants supported the fears with missed first quarter earnings announcements like Google, HP and IBM, others beat expectations, including Facebook and Yahoo.
- The recent IPO of Weibo, the Chinese answer to WhatsApp, has reflected the new investors' caution by bringing down its proceeds from \$500 mn to \$285 mn. Nevertheless, IPO markets are on a record high this year.
- Despite the market uncertainty, M&A activity continued to be strong last month. First and foremost, the Chinese e-commerce giant Alibaba continues its buying spree with the buy in for a minority stake in Chinese web TV player for \$1.2 bn and the acquisition of a Chinese mapping firm for \$1.5 bn, ahead of its long-awaited IPO later this year.
- Regulatory environment has changed significantly, especially in the European market. The EU decided to end roaming fee and vote in favor of net neutrality. While highly appreciated by consumer groups, industry organizations criticized the ruling. Regarding net neutrality, industry representatives argue it would loose investment power and may fail to offer high bandwidth to internet services like Skype or Netflix.



www.novainvestmentclub.com

TMT Universe:

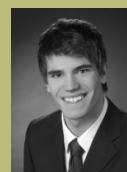
- Altice
- Facebook
- Google
- Microsoft
- Portugal Telecom

This month's detailed company review:

- Altice



Sofia Pavão
sofia.pavao@nova
investmentclub.pt



Björn Schulmeister
bjorn.schulmeister@nova
investmentclub.pt

Table of Contents

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

2. TMT Sector vs. Overall market



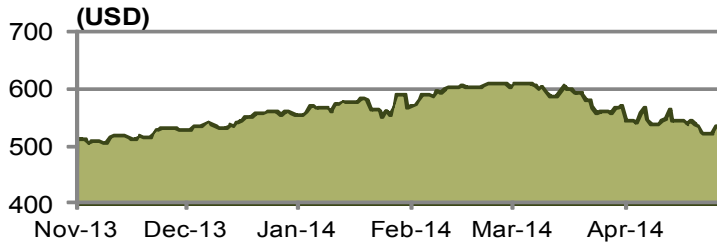
- During this period, all indexes moved in lock-step while the IT index consistently outperforms its peers. After the downturn of the market in February recovery can be spotted among all indexes up to date.

3. Followed Companies

Google

(Ticker: GOOGL US)

- Adding to the buoyant market, Google acquired Titan Aerospace, a high altitude drone manufacturer for an undisclosed amount. Earnings have been disappointing for the tech giant. Although revenues went up 19% YoY, costs also increased, leaving the company with lower than expected earnings.

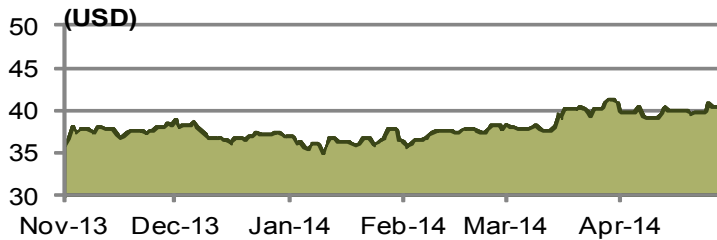


Price (USD):	↑	536,33
Target Price (USD)		658,50
Up/down side:		22,8%
Performance 3M:		-9,3%
P/E Ratio:		28,7x
ROIC/WACC:		1,3x

Microsoft

(Ticker: MSFT US)

- For the first time, Satya Nadella announced the quarterly earnings results of the company that beat investors expectations despite year on year decline in earnings. During the call it was also said that cloud services will continue to foster. Besides that, the offer for Nokia's handset business was refined.

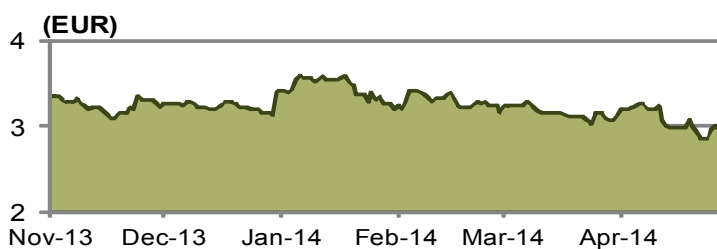


Price (USD):	→	40,51
Target Price (USD)		42,50
Up/down side:		4,9%
Performance 3M:		7,1%
P/E Ratio:		14,5x
ROIC/WACC:		2,3x

Portugal Telecom

(Ticker: PTC PL)

- Oi, the third largest Brazilian telecom operator and target of PT, successfully placed its equity offering and thereby pathing the way for a merger. The offering was the biggest Brazilian follow-on offering in four years and is viewed as a big success also for PT.

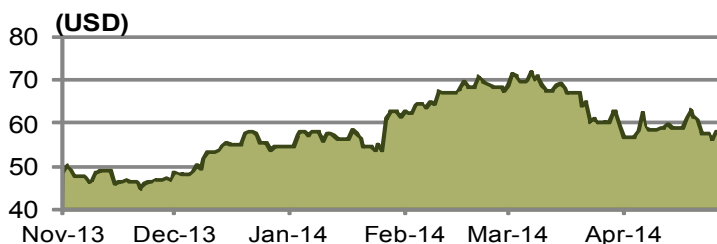


Price (EUR):	↑	3,00
Target Price (EUR)		3,65
Up/down side:		21,7%
Performance 3M:		-8,1%
P/E Ratio:		8,0x
ROIC/WACC:		0,7x

Facebook

(Ticker: FB US)

- Facebook surprised investors with strong quarterly results through gains in mobile ad market. Revenue grew 70% compared to last year while the share of mobile surged from 30% to 59% indicating a successful transmission to the future growth market. Meanwhile, the CFO David Ebersmann decided to step down.



Price (USD):	↑	58,15
Target Price (USD)		79,50
Up/down side:		36,7%
Performance 3M:		-7,1%
P/E Ratio:		77,5x
ROIC/WACC:		1,5x

4. Stock Analysis: Altice

Corporate News

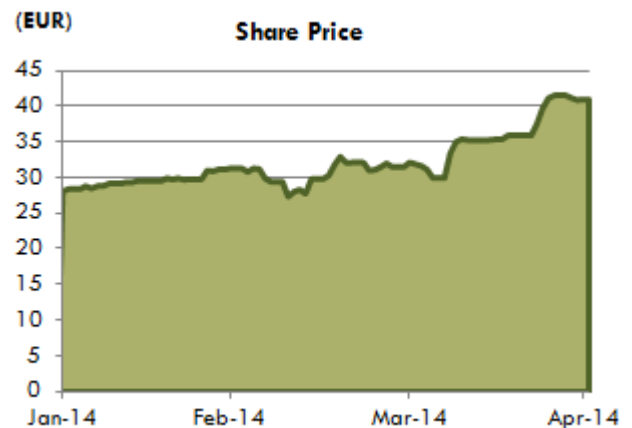
- European cable group, Altice SA, has won the battle against Bouygues to acquire Vivendi's French phone unit, SFR. The deal was agreed at a value around €17 billion, equivalent to \$23 billion. Altice will pay €13.5 billion in cash and will provide 20% of the company created from a merger with its Numericable Group and SFR. Moreover, Vivendi will earn €750 million in case earnings targets are achieved. Vivendi has supported that it has done the best choice with a sense of balance between cash received right away and the equity stake entitling the group to receive the highest total valuation.
- Altice's goal is to merge SFR with Numericable, its French subsidiary. The deal will enforce the position of Altice in Europe and allow it to challenge Orange and Bouygues by offering the quad play service - bundled mobile, landline, Internet packages and TV.

Market Performance

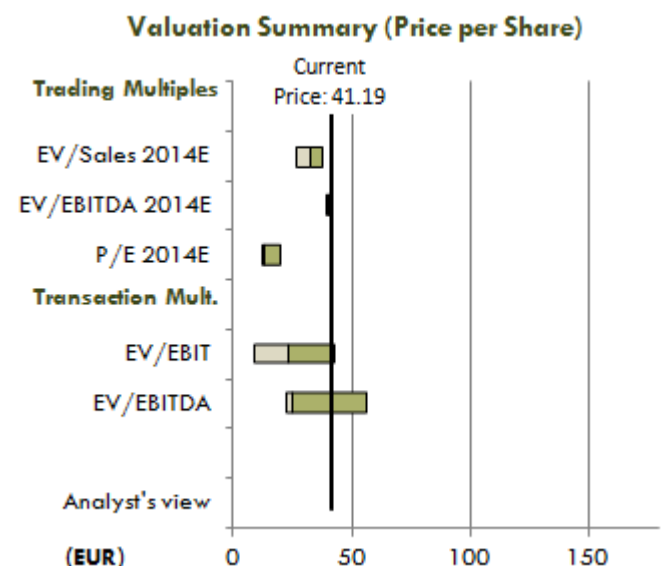
- The market reaction of the different companies involved in this transactions are curious. On one hand, Numericable shares increased by 15% reaching a value per share close to €30.35, in Paris. On the other hand, the acquirer, Altice, rose 11% to a value of €33.60, in Amsterdam. Usually, there is a downward trend in the share price of the acquirer really after the acquisition announcement. If the market did not react negatively, it is a signal that it trust on the value that is being paid, namely on the verification of expected synergies. Finally, Vivendi gained 0.3% and Bouygues decreased by 6 %.

Valuation Summary

- The Altice transaction has been fairly price with regards to EBIT and EBITDA multiples of comparable transactions. However when looking at the P/E, EV/sales and EV/EBITDA of trading multiples this transaction seems to be slightly undervalued. Actually, Telecom companies use to trade at higher multiples, and this may inflate the value of trading multiples.



Altice (EUR)	
Current Price (01/05/2014)	41.19
52-week high % change	-5.7%
Median Target Price	36.00
Market Capitalisation (mn)	8,496
Return on Common Equity	38.7%
Dividend Yield	N/A
Beta (vs. S&P500)	N/A
Total Debt/Equity	3988.1%



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
Altice	EUR	8,496	12,233	N/A	3.5x	3.3x	24.4x	7.9x	7.2x	N/A	N/A	35.5x
Comcast Corp.	USD	134,230	177,604	2.6x	2.6x	2.5x	8.1x	7.8x	7.3x	19.6x	17.8x	15.8x
Time Warner Cable Corp.	USD	39,398	63,699	2.8x	2.8x	2.6x	7.9x	7.6x	7.3x	20.2x	18.3x	16.8x
Grupo Televisa	MXN	243,855	259,421	3.6x	3.3x	3.1x	9.1x	8.6x	8.1x	34.5x	27.7x	23.4x
Cablevision System	USD	4,530	13,177	2.2x	2.1x	2.0x	8.0x	7.6x	7.4x	61.1x	33.0x	28.6x
Shaw Communications Corp.	CAD	12,219	16,995	3.2x	3.2x	3.2x	7.7x	7.5x	7.3x	17.0x	15.2x	15.0x
75th Percentile				3.2x	3.3x	3.2x	8.9x	7.9x	7.4x	34.5x	27.7x	27.3x
Median				2.8x	3.0x	2.9x	8.1x	7.7x	7.3x	20.2x	18.3x	20.1x
25th Percentile				2.6x	2.6x	2.5x	7.9x	7.6x	7.3x	19.6x	17.8x	16.0x

- Altice's Sales Multiples are slightly overvalued comparing to the median of the comparable companies, both for 2014 and 2015. Analysing the EV/EBITDA multiples, the conclusion is in line with the previous multiple analysed. Actually, the variations within this industry are rather insignificant which may explain this small variation.
- Regarding P/E ratio, it is possible to state that for 2015 Altice is expected to grow at a ratio much higher than the median of its comparables. This may reflect the expected growth of SFR acquisition and even other acquisitions Altice is planning to go ahead.

Precedent Transactions

Announced Date	Target		Buyer		EV (USD mn)	EV/EBIT	EV/EBITDA
	Company	Country	Company	Country			
07-May-12	Koninklijke KPN NV	NL	América Móvil	MX	2,657	4.8x	2.3x
26-Aug-12	National Mobile Telecommunicatio	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

- Altice entered in bidding war with Bouygues in order to acquire SFR. This sort of wars put pressure for the bidding price to increase. Altice has a lot to gain with this transaction which may explain the €17 billion paid. However, as previously said, the price Altice paid is in line with comparable transactions. Usually, superior multiples are obtained in the US market once this market is more developed and powerful market when comparing with the fragmented continental European Market.
- The transaction that better fits the Altice deal is the acquisition of Kabel Deutschland by Vodafone last year. Both are transactions that took place in European markets which is very important. However, the amount that Altice paid is higher than the one Vodafone paid. Actually, Altice is planning to merge SFR with Numericable, its French subsidiary. Thus, the higher amount paid might be explained by the higher synergies that Altice and SFR may have.