

Tech, Media & Telecoms

Sector Review – May



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TMT Universe:

- Apple
- Facebook
- Google
- Microsoft
- Portugal Telecom

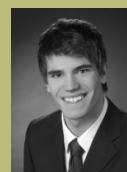
This month's detailed company review:

- Apple



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1. Sector Overview

- Five months have passed since the beginning of 2014, and so far, it is possible to state that this has been a year full of M&A activity, in which it is fair to underline the role of the TMT sector. To what regards TMT transactions, one may conclude that companies operating in this sector have some attractive features. Indeed, they are generally characterized by having excess cash, which is very useful to go ahead with new projects, namely acquisitions. Moreover, these companies usually trade at low P/E multiples in the midst of large-cap companies, which may be a signal that they are underpriced and therefore they are seen as a good opportunity to invest.
- This month, the majority of emerging markets have declined as a consequence of the drop in tech stocks. This fact shows the great dependence that emerging markets have on the performance of the tech sector. In fact, this decrease in price made these stocks more attractive for European and American investors, that increased their investments in this market.
- May was marked by the Apple's acquisition of the headphone maker, Beats Electronics, for \$3 bn. This deal was a way to show investors that Apple is still able to innovate without Steve Jobs, once there were no significant products announced since the Ipad.
- Alibaba invested around \$249 mn for 10% of the Singapore Post, which accounted to S\$1.42 a share. This transaction will give the Chinese ecommerce group a beachhead in southeast Asia.

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TMT Sector vs. Overall market



- During the considered period, the MSCI World IT Index has been always above the World Index. However, one should note that in May, these indices are much more closer, as a result of an increase in the World Index. It is also important to underline the upward trend of all the indices, which confirm that this year has been plenty of M&A activity.

2. Followed Companies

Google

(Ticker: GOOGL US)

- Google has released this month its own driverless car. The company had been testing these cars for a long period, which may signal that Google is planning to innovate and to be one step ahead of its main tech competitors. This may be a reason behind the increase in Google's stock price.



Price (USD):	↑	571.65
Target Price (USD):		667.50
Up/downside:		16.8%
Performance 3M:		-5.0%
P/E Ratio:		30.3x
ROC/WACC:		1.3x

Microsoft

(Ticker: MSFT US)

- The Microsoft browser, Internet Explorer, has roughly 43% of the desktop browser market in the U.S, which represents a decline when compared to the 80% in 2008. However, this does not have a huge impact in share price, once as it is possible to confirm, Microsoft has been increasing its share price since the beginning of the year.



Price (USD):	→	40.94
Target Price (USD):		42.50
Up/downside:		3.8%
Performance 3M:		8.4%
P/E Ratio:		14.8x
ROC/WACC:		2.4x

Portugal Telecom

(Ticker: PTC PL)

- It is clear that PT has shown a downward trend since the beginning of the year. This was due to the changes that the merger with Oi created in the Portuguese company. However, one should note that the decrease in price in May, may be a result of the appearance of the new Portuguese telecom, Nos, which resulted from the merger with Zon and Optimus.



Price (EUR):	↑	2.64
Target Price (EUR):		3.28
Up/downside:		24.2%
Performance 3M:		-16.8%
P/E Ratio:		8.6x
ROC/WACC:		0.5x

Facebook

(Ticker: FB US)

- Last month, Facebook has surprised investors with strong quarterly results which explains the upward trend of this company. In addition, this month, the company has been seeking for EU approval for the Whatsapp acquisition. This deal has already been approved by the Federal Trade Commission in the US, but in Europe it is still in need for a review.



Price (USD):	↑	63.30
Target Price (USD):		79.50
Up/downside:		25.6%
Performance 3M:		-6.1%
P/E Ratio:		83.3x
ROC/WACC:		1.6x

3. Stock Analysis: Apple

Corporate News

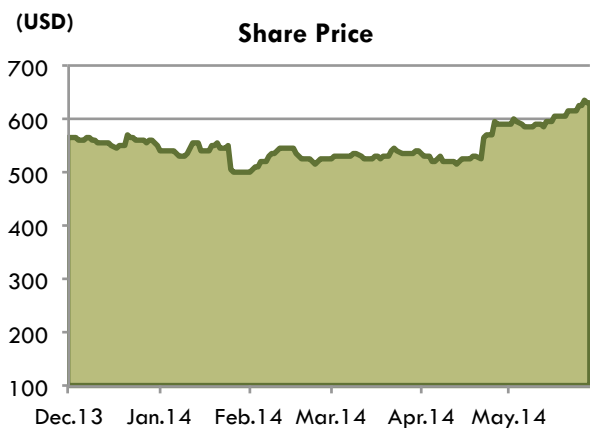
- What is now known as the biggest deal in history of Apple, is quite frankly a paradigm shift for the technology giant. The deal with Beats Electronics broke the long-standing convention of developing its technology in-house. Mr. Cook stressed the importance of music streaming service and the unique selling proposition, including its strong brand. The deal is worth \$3 bn out of which \$2.6 bn are paid in cash and \$400 mn in apple stock.
- Besides the above-mentioned deal, Apple released its new mobile operating system IOS 8 that is set to compete with Google's Android platform that comes in mostly in form of Samsung smartphones. The release at the Worldwide Developers Conference constitutes another major shift for Apple, since now developers get access to fundamental elements such as keyboards. Further, health kit is set to capture health and fitness data of users, which is seen as a growth pocket in future.

Market Performance

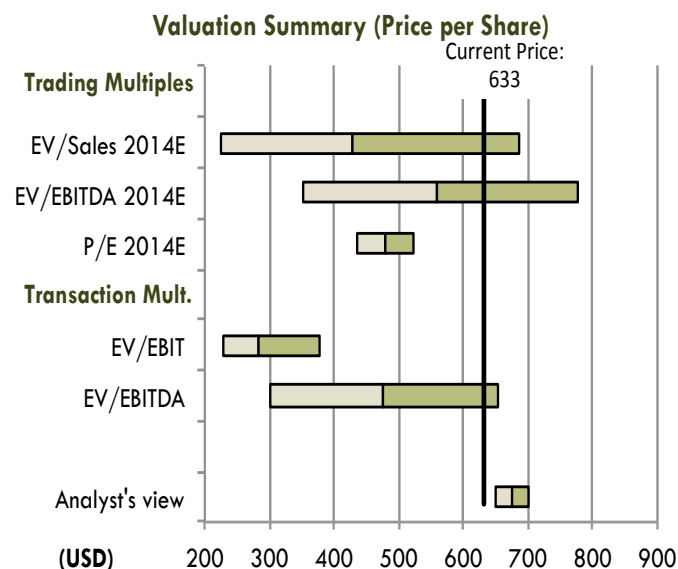
- Market reactions have been slightly negative on merger news, hence not showing any unusual pattern, thus reflecting investors pessimistic view on the full realization of premium paid. However, stocks were up three days after the announcement. Surely, also facilitated by the news from the Worldwide Developers Conference.

Valuation Summary

- Although analysts seem to undervalue the company, trading multiples place Apple in the upper range. Given Apples strong position in the technology industry, trading multiples might display the most accurate picture. Consequently transactions are hard to find that display such a position appropriately. Hence, Apple seems overvalued looking at transaction multiples.



Apple (USD)	
Current Price (31/05/2014)	633.00
52-week high % change	-2.8%
Median Target Price	653.11
Market Capitalisation (mn)	556,082
Return on Common Equity	29.5%
Dividend Yield	0.3%
Beta (vs. S&P500)	0.79
Total Debt/Equity	13.7%



Comparable Analysis

Company Name	Currency	M Cap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2014E	2015E	LTM	2014E	2015E	LTM	2014E	2015E
Apple	USD	556,082	422,455	1.9x	2.3x	2.2x	7.3x	7.1x	6.7x	15.4x	14.6x	13.4x
Microsoft Corp	USD	342,642	276,896	3.3x	3.3x	2.9x	8.7x	8.6x	8.1x	14.8x	15.3x	14.3x
Google Inc	USD	378,243	322,984	5.2x	6.2x	5.2x	17.2x	12.3x	10.4x	30.3x	21.2x	17.9x
Lenovo Group	HKD	98,768	9,891	0.2x	0.2x	0.2x	7.0x	7.4x	6.3x	15.9x	15.1x	12.4x
Samsung Electronics	KRW	214,615,134	182,700,442	0.6x	0.7x	0.7x	3.2x	3.1x	3.0x	7.2x	7.6x	7.4x
Sony Corp	JPY	1,716,458	3,030,250	0.3x	0.2x	0.2x	4.1x	3.1x	2.5x	N/A	N/A	15.6x
75th Percentile				2.9x	3.0x	2.7x	8.4x	8.3x	7.8x	15.9x	15.3x	15.3x
Median				1.2x	1.5x	1.4x	7.1x	7.2x	6.5x	15.4x	15.1x	13.9x
25th Percentile				0.3x	0.4x	0.3x	4.8x	4.1x	3.8x	14.8x	14.6x	12.6x

- Apple'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.
- Regarding P/E ratio, growth opportunities are not necessarily higher for Apple than for its peers. The P/E multiple moves around the median of its peers, where Google is without question an extraordinary candidate for future growth opportunities. Also Lenovo outperforms Apple on the growth measure which leads to the conclusion that markets may see growth coming from acquisitions rather than internally generated as both Google and Lenovo have been acquiring much more aggressive than Apple.

Precedent Transactions

Announced Date	Target		Buyer		EV (USD mn)	EV/EBIT	EV/EBITDA
	Company	Country	Company	Country			
03-Sep-13	Nokia	FI	Microsoft	US	5,440	6.5x	12.0x
01-Feb-11	EMI Group	UK	Citigroup	US	2,200	11.6x	6.6x
02-Feb-13	Dell	US	Silver Lake Partners	US	27,900	5.8x	6.1x
21-May-12	AMC Entertainment	US	Dailan Wanda	CH	2,600	7.9x	11.4x
75th Percentile						8.8x	11.6x
Median						7.2x	9.0x
25th Percentile						6.3x	6.5x

- Valuing one of the biggest companies in the world when comparing market capitalization turns finding comparable transactions into a hard job. The overvaluation of Apple concerning transaction multiples is therefore no surprise. The closest peer being acquired (Dell) was bought out of severe deficits operationally and financially, hence low multiples display that.
- When Microsoft announced the acquisition of Nokia, the comparing figures relate closely enough to how Apple is viewed by the market. Relatively strong differences between EBITDA and EBIT multiple are characteristic for the technology industry in which the production of hardware and valuation of software components cause high amounts in depreciation and amortization.