BARCLAYS

Masmovil
Mas opportunities

We initiate coverage on Masmovil with an Overweight rating and €33 PT (+25% upside potential). MM has grown through acquisitions in recent years to form the fourth converged national operator in Spain. Looking ahead we see material organic growth opportunities, thanks to favorable FTTH/ADSL access and rising market prices that create opportunities to take market share in the value segment. Combined with substantial cost cutting, we see MM delivering a PF revenues/EBITDA 2016-19E three-year CAGR of +5%/+25%. Execution risk is important but controlling shareholders and management interests are well aligned with minorities, in our view.

Three organic drivers. MM has grown inorganically to be the fourth fully integrated convergent operator in Spain with c. €1.1bn annual revenues (c. 5% market share) and c. 5m subscribers. We see three organic growth drivers ahead: 1) grow its broadband subscriber base thanks to fibre access and national ADSL coverage; 2) upsell its mobile customer base to a convergent product and reduce churn by pricing competitively compared to peers thanks to a rational market where prices are increasing; 3) reduce its cost base via lower roaming costs and synergies.

Strong growth ahead. We forecast a three-year revenue CAGR of +5%, driven by convergent and broadband revenues. Combined with lower roaming costs (c. EUR60m savings adding 5pp of EBITDA margin) and lower churn, this should enable a 25% three-year EBITDA CAGR. We expect MM to move to positive FCF by 2018E and gradually delever.

Valuation – OW, €33 PT. We initiate with an OW rating and €33 PT based on a DCF approach (9.5% WACC and 1% terminal growth rate, a reflection of high execution risk). We estimate MM trades on 9.1x 2017E EV/EBITDA compared to European challengers on 8.1x but looks attractive on 2018E multiples at 6.6x vs peers on 7.3x.

Risks. The main risk is execution. Masmovil will need to execute on realizing synergies as well as leveraging its unique asset base in a competitive and converged Spanish market. We also highlight the high leverage (2017E at 5.5x including converts at 100%). The lack of a comparable content strategy could be an issue in future.

MASM.MC: Financial and Valuation Metrics EPS EUR

FY Dec	2014	2015	2016	2017	2018
EPS	N/A	N/A	-0.06E	-1.00E	-0.02E
Previous EPS	N/A	N/A	N/A	N/A	N/A
Consensus EPS	N/A	N/A	-1.28E	0.20E	1.85E
P/E	N/A	N/A	N/A	N/A	N/A

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 38.

Completed: 17-Jan-17, 21:45 GMT Released: 18-Jan-17, 05:00 GMT

Equity Research

Telecommunications | European Telecom Services

18 January 2017

Stock Rating	OVERWEIGHT
	from N/A
Industry View	POSITIVE
	Unchanged
Price Target	EUR 33.00
	from N/A

Price (16-Jan-2017)	EUR 26.30
Potential Upside/Downside	+25.5%
Tickers	MAS SM / MASM.MC

Market Cap (EUR mn)	527
Shares Outstanding (mn)	19.95
Free Float (%)	86.60
52 Wk Avg Daily Volume (mn)	0.0
52 Wk Avg Daily Value (EUR mn)	0.17
Dividend Yield (%)	1.7
Return on Equity TTM (%)	-9.09
Current BVPS (EUR)	6.79

Source: Thomson Reuters

Price Performance	Exchange-MCE
52 Week range	EUR 26.65-17.07

Link to Barclays Live for interactive charting

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European Telecom Services | **Industry View: POSITIVE**

Masmovil (MASM.MC)

Stock Rating: OVERWEIGHT

Income statement (€mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	130	348	1,129	1,191	109.1%
EBITDA	11	39	141	193	162.6%
EBIT	0	7	-15	37	324.2%
Finance costs - net	-3	-8	-20	-38	N/A
Pre-tax income	-2	-1	-35	-1	N/A
Tax rate (%)	25	-88	-5	25	-0.3%
Net income	-2	-2	-37	-1	N/A
EPS (adj) (€)	N/A	-0.06	-1.00	-0.02	N/A
Diluted shares (mn)	N/A	37.0	37.0	37.0	N/A
DPS (€)	N/A	0.00	0.00	0.00	N/A

Margin and return data					Average
EBITDA margin (%)	8.2	11.2	12.5	16.2	12.0
EBIT margin (%)	0.4	1.9	-1.4	3.1	1.0
Pre-tax margin (%)	-1.5	-0.3	-3.1	-0.1	-1.3
Net margin (%)	-1.2	-0.6	-3.3	-0.1	-1.3
Operating CF margin (%)	8.9	10.8	10.6	13.0	10.8
ROCE (%)	0.4	9.8	-2.6	4.8	3.1
RONTA (%)	9.3	1,685.9	-2.0	3.6	424.2
ROA (%)	0.3	9.4	-2.8	5.2	3.0
ROE (%)	-2.3	-2.3	-6.3	-0.1	-2.7

Balance sheet and cash flow (€mn)					CAGR
Tangible fixed assets	1	783	775	760	907.4%
Intangible fixed assets	4	5	5	5	6.4%
Cash and equivalents	6	-247	-275	-262	N/A
Total assets	134	574	537	536	58.9%
Short and long-term debt	33	94	94	94	42.2%
Other long-term liabilities	2	2	2	2	-0.6%
Total liabilities	37	-15	-15	-15	N/A
Net debt/(funds)	139	733	767	764	76.5%
Shareholders' equity	97	589	552	551	78.6%
Cash flow from operations	12	38	119	155	137.2%
Capex and acquisitions	-10	-50	-148	-141	N/A
Free cash flow	4	1	-10	43	120.1%
NOPAT	0	13	-16	28	324.7%

Valuation and leverage metrics					Average
P/E (adj) (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (x)	104.4	43.9	12.4	9.0	42.4
Equity FCF yield (%)	N/A	-1.4	-3.1	1.4	-1.0
EV/sales (x)	8.5	4.9	1.5	1.5	4.1
P/BV (x)	N/A	1.7	1.8	1.8	1.7
Dividend yield (%)	N/A	0.0	0.0	0.0	0.0
Total debt/capital (%)	25.2	13.7	14.5	14.5	17.0
Net debt/EBITDA (x)	13.0	18.9	5.5	4.0	10.3

Selected operaitng metrics (k)				
Broadband subs Spain	N/A	97	272	472
Total mobile subscribers - Spain	N/A	4,293	4,293	4,293

Price (16-Jan-2017)	EUR 26.30
Price Target	EUR 33.00

Why Overweight? We believe Masmovil has a significant and unique opportunity to take market share at the value end of the market at favourable economics, in part due to the remedies it received as part of the Orange/Jazztel merger.

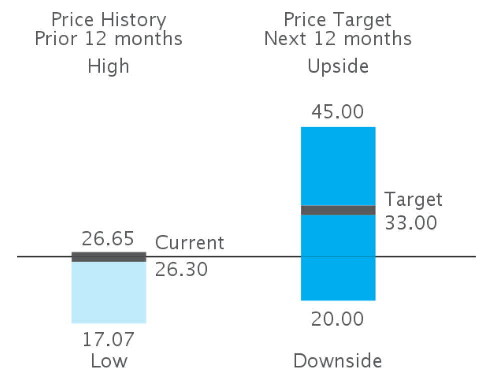
Upside case EUR 45.00

Masmovil increases its subscriber base faster than we currently forecast, leading to higher revenues.

Downside case EUR 20.00

Masmovil struggles to gain traction in the market and adds fewer subscribers than we forecast, leading to lower revenues.

Upside/Downside scenarios



Source: Company data, Barclays Research
Note: FY End Dec

Executive summary – Mas opportunities

Masmovil has seen substantial growth and change with multiple acquisitions over the past 24 months, transforming the company from a modest reseller to a fully integrated convergent operator. The most recent acquisition of Yoigo combined with Masmovil's various ADSL/fibre agreements and rollouts has created a de-facto fourth operator in Spain with a revenue base of c. EUR1.1bn PF (c. 5% market share). With substantial synergies from recent acquisitions as well as a unique opportunity to take market share at favourable economics, we estimate Masmovil will deliver a PF revenues/EBITDA 2016-19E three-year CAGR of +5%/+25%. Clearly there is execution risk but we believe it is more than offset by the material possible upside.

Investment thesis

- **Substantial organic growth.** We see Masmovil set to offer a +5%%/25% three-year PF revenue/EBITDA CAGR through recent external acquisitions as well as organic growth. The next step will involve execution of synergies following the recent acquisition of Yoigo, including the migration of MVNO traffic on-net as well as the migration of roaming traffic from Telefonica's network to Orange's at more favourable economics.

- **Attractive market opportunity as competitor prices are up.** We see room for a value player in the Spanish market. Competitors have rolled out substantial fibre networks across Spain as well as investing in expensive content (Sports) that they now need to monetise, as evidenced by the price increases of the last two years. We believe this leaves a niche at the value end of the market to offer no frills products to the more cost-conscious consumer. The acquisition of Yoigo mobile customers (c. 5m) combined with its fixed line assets should enable Masmovil to drive growth through a competitive convergent offer.

- **Attractive economics on ADSL/FTTH.** We estimate Masmovil can still make a healthy profit per customer by pricing at a ca20% discount to the big three operators due to favourable economics on its ADSL/FTTH access. Masmovil has access via wholesale as well as owner economics through remedies, co-financing and own-built fibre.

- **Seasoned management and supportive investors.** The management team has broad experience from all key telecom competitors in Spain and includes the former Jazztel strategy director; three former ONO directors in strategy, operations and commercial; and three former Vodafone directors in network deployment, general counsel and finance. More than 50% of shareholders are currently party to a lock-up until July 2017. The largest investor, Providence Equity Partners, is an experienced Telecom investor, having previously been involved in numerous companies including Ono, Kabel Deutschland and Com Hem, to name a few.

We therefore believe there is substantial upside potential if Masmovil is able to deliver on its convergence strategy.

Risks to the story

The investment case is not without risks. We believe the main risks to our investment case are:

- **Execution risk.** Masmovil has embarked on multiple acquisitions in the last 10 months. The numerous acquisitions therefore make modelling difficult. There is also significant execution risk in the business plan as Masmovil consolidates three roaming agreements to a new network.

- **High leverage.** High leverage should come down as part is in converts

- **Lack of Content.** Admittedly Masmovil is targeting the value end of the market but with competitors able to offer plenty of content Masmovil could be at a disadvantage if content becomes the differentiating factor. The ability to provide content wholesale does mitigate this risk somewhat, but this could still pressure margins.
- **Roaming.** Both national roaming and EU roaming could cause issues. Yoigo currently covers ca85% of Spain with 4G coverage and relies on roaming to supplement coverage. Increasing data usage could pressure margins per our *Last of the MVNOs* (15 June 2015) thesis. EU roaming is set to be a drag for all operators in 2017, see *Roaming returns – wholesale is key* (7 November 2016).
- **Lock up.** The shareholder lock up expires in July 2017. It was renewed in July 2016 but there is no guarantee it would be renewed again.

Masmovil: Mas rewards

A brief history

Masmovil stated in life 1997 with the aim to provide the most competitive offer in the telecommunications market on both price and quality. Historically Masmovil was a fixed services provider and in 2006 started offering mobile services as an MVNO. Masmovil completed a number of acquisitions in 2014, increasing the size of the company by more than 15 times.

Jazztel/Orange remedies in October 2015

Orange acquired Jazztel in the summer of 2015 on the condition of certain remedies. The remedies required by the EC press release included:

- Orange had to commit to divest an independent FTTH network covering 700-800k building units, which was similar in size to Orange's FTTH network in Spain at the time. The network covered 13 urban districts including the five largest Spanish cities of Madrid, Barcelona, Valencia, Sevilla and Malaga.
- Orange had to grant whoever acquires the FTTH network wholesale access to Jazztel's national ADSL network for up to eight years. There is no limit to the number of subscribers the acquirer can add and the access will provide MM with ca80% ADSL coverage.

Despite being a small player Masmovil was able to convince the EC it was a credible remedy taker and it won the bid, paying €89m. Orange acquired access to the FTTH network it sold via an IRU for €69m.

Pepephone acquisition in September 2016

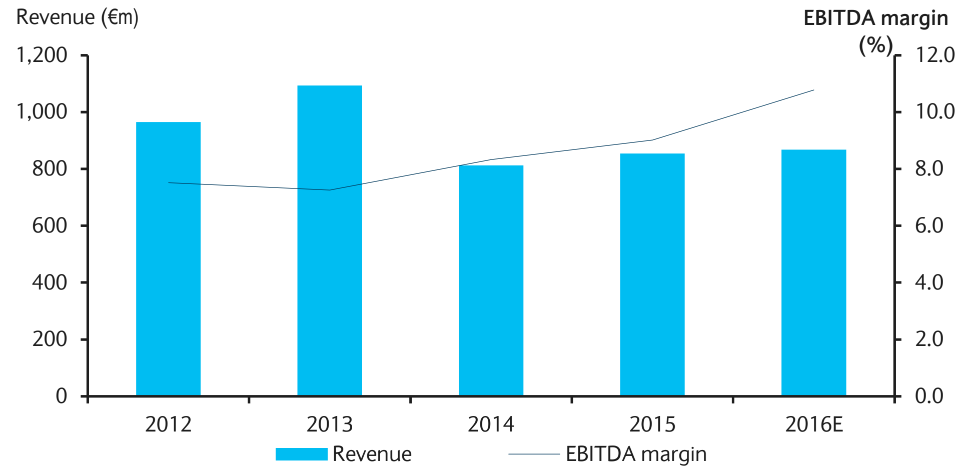
Masmovil completed the acquisition of Pepephone in September2016. Pepephone was purchased for an enterprise value of €158m, which, adjusting for run-rate synergies, implies an EV/EBITDA multiple of 6.6x. Pepephone offers mobile services as well as broadband services as an MVNO and reseller. Around the end of 1Q16 it had c. 460k mobile subscribers, of which more than 95% were postpaid customers, as well as 35k ADSL broadband customers. Pepephone has one of the lowest churn rates in the market and we believe its mobile base represents a significant opportunity for Masmovil to market its convergent products.

Yoigo acquisition in October 2016

Yoigo is the fourth largest mobile operator in Spain (by subscribers), successfully targeting high-value customers with competitive tariffs as the market converges more and more. At the end of 3Q16, Yoigo had 3.3m mobile customers, significantly increasing the number of customer relationships Masmovil has. Combined with the Pepephone and Masmovil mobile bases, we estimate Masmovil will have a total mobile subscriber base of 4.3m by YE16. Although Masmovil's disclosure is somewhat limited, Yoigo was previously owned by the Swedish incumbent TeliaSonera, which reported detailed KPIs.

FIGURE 1

Yoigo: Standalone revenues (€m) and EBITDA margins (%)



Source: Company data, Barclays Research

Mobile National Roaming Agreement (NRA) with Orange in October 2016

Yoigo owns its own mobile network and is the fourth largest operator in Spain by subscribers. Historically Masmovil was an MVNO (as was Pepephone) and therefore the migration of this traffic to Yoigo's network could represent significant savings. However, Yoigo does not have national coverage like the other three operators and relies on TEF to supplement its coverage. Positively, Masmovil has renegotiated its NRA with Orange at a better rate than it had previously contracted and expects savings of c.€60m.

Co-investment deal, wholesale deal on FTTH, mobile site access in October 2016

In addition to the renegotiation of its NRA in October 2016, Masmovil also announced the agreement to co-invest FTTH, for wholesale access to Orange's entire FTTH network and mobile site sharing. Mobile site sharing could allow Masmovil to reduce its roaming fees by extending its mobile coverage. We also note a number of other options to gain access to mobile sites via Cellnex and Telefonica's tower unit Telxius as well. The wholesale agreement gives Masmovil wholesale access to Orange's entire FTTH network in both regulated and unregulated areas. Orange aims to reach 14m premises with FTTH by 2020E, or 80% of municipalities with >20k inhabitants (ca18.6m premises). We estimate Orange currently covers 9m premises. Through its announced co-investment in FTTH Masmovil will grant access its own network to Orange in return for access to the same number of households on Orange's network via IRUs, essentially halving the roll-out cost. The co-financing deal in combination with Masmovil's recently agreed wholesale access will see the deployment of Masmovil's own network well above its previously communicated target of 2.3m households. Masmovil is already fully converged via ADSL given the c.80% LLU access acquired as part of the Orange/Jazztel remedy package. It could be argued that Masmovil would be somewhat left behind in fixed if it didn't have a FTTH offer; however, the company highlighted that despite FTTH not being available in many areas competitors have increased ADSL pricing to drive FTTH adoption, leaving a value gap in the market which Masmovil can exploit.

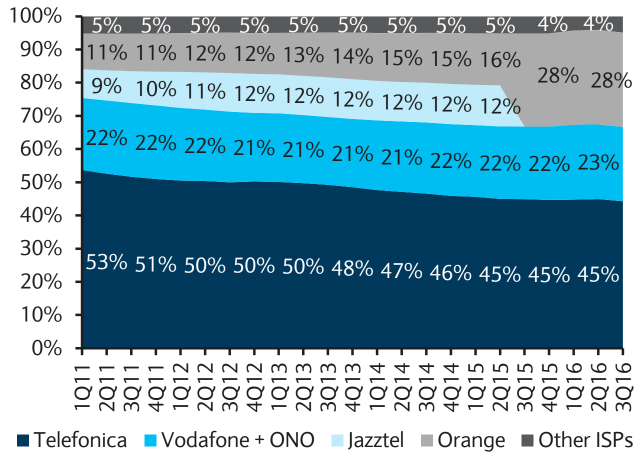
Masmovil after acquisitions

Masmovil has created the de-facto fourth operator in Spain with a revenue base of c. EUR1.1bn PF (c. 5% market share).

In fixed the company had 78k broadband customers at the end of 3Q16, or <1% of the market with a target to reach 100k by YE2016.

FIGURE 2

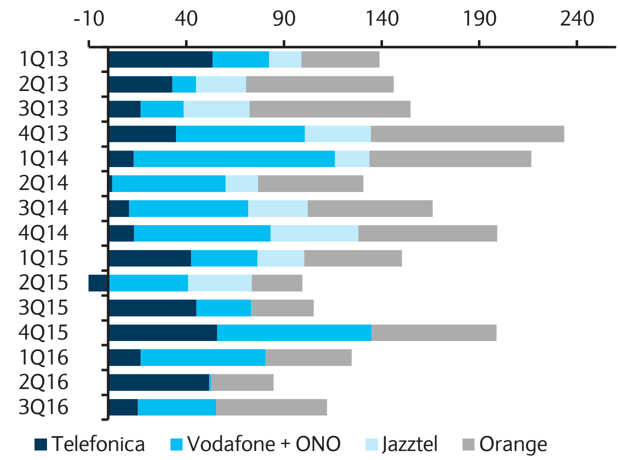
Spain: Fixed Broadband market share



Source: Barclays Research, Company data

FIGURE 3

Spain: Fixed Broadband net adds – 000s



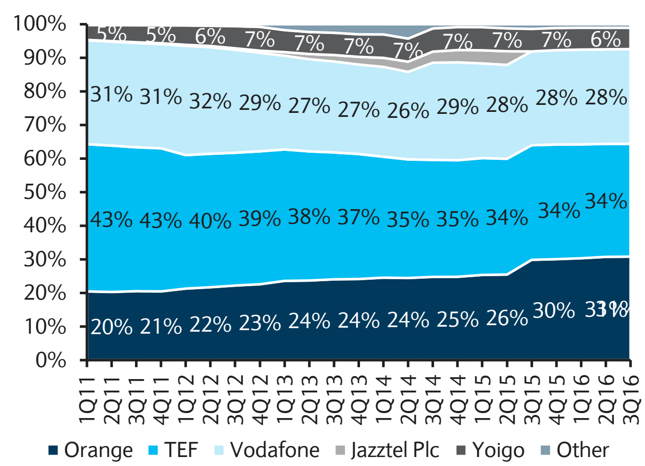
Source: Barclays Research, Company data

Masmovil had 500k subscribers pre its most recent acquisitions. The acquisition of Pepephone added a further half a million subscribers, giving MM roughly 2% market share in aggregate. Yoigo standalone had 2.6m subscribers or ca6% of the market. MM's latest figures detail Masmovil's mobile subscriber base at 4.3m, or 8% of the Spanish mobile market.

TEF leads the way in 4G coverage in Spain (N.B. TEF's reported 4G coverage is on a different basis to peers). Yoigo has its own network and c. 85% 4G population coverage as well as c. 800 stores. Yoigo supplemented this coverage with a roaming contract with TEF and now Orange (see above).

FIGURE 4

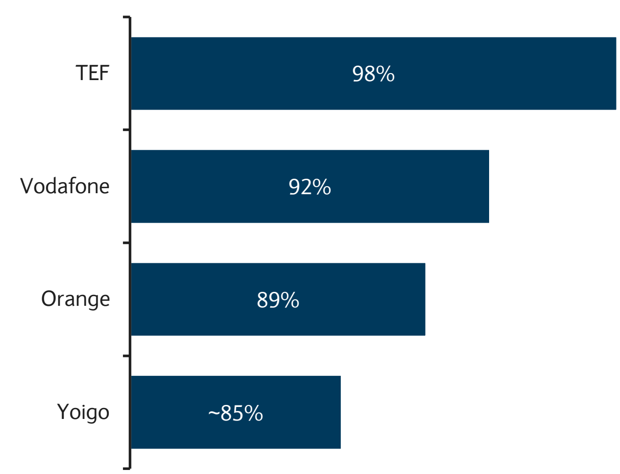
Spain: Mobile subscribers market share



Source: Barclays Research, Company data.

FIGURE 5

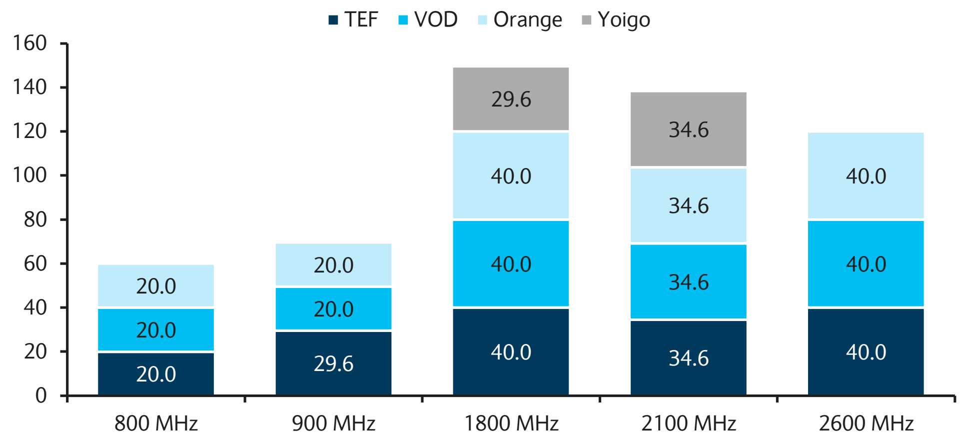
Spain: 3Q16 4G coverage (%)*



Source: Barclays Research, Company data. *TEF adjusted to same basis as competitors.

In terms of spectrum holdings in Spain, TEF holds the most with 20/29.6/40/34.6/40MHz of total spectrum in the 800/900/1800/2100/2600MHz bands (this excludes TDD spectrum). Vodafone and Orange hold equal shares with 20/20/40/34.6/40MHz in the 800/900/1800/2100/2600MHz bands each. Yoigo then holds only 29.6MHz of 1800MHz and 34.6MHz of 2100MHz, or ca12% of total spectrum. Were Yoigo to match its market share to its spectrum share, we estimate this would be an additional 1.9m mobile subscribers.

FIGURE 6
Spain Spectrum Holdings (MHz, 20MHz=2x10MHz)



Source: Barclays Research, Company data

Three organic growth drivers for the future

We believe that Masmovil has three growth drivers that should enable a significant expansion of its revenue, EBITDA and FCF in the next three to five years. First, we see scope for customer growth as the company expands its FTHH footprint at a low cost and benefits from attractive wholesale broadband prices out of footprint. Second, we see significant cross-selling opportunity to the mobile customer base of a convergent quadplay product. TEF and the other players have raised prices significantly over the past two years suggesting Masmovil can benefit from the higher pricing umbrella of the leaders to gain price sensitive customers profitably and take market share. Third, the company has already started to reduce its cost base thanks to attractive roaming deals and we expect further cost-cutting opportunities as it integrates the different assets it has purchased. The lack of a comparable content strategy is one question mark, however.

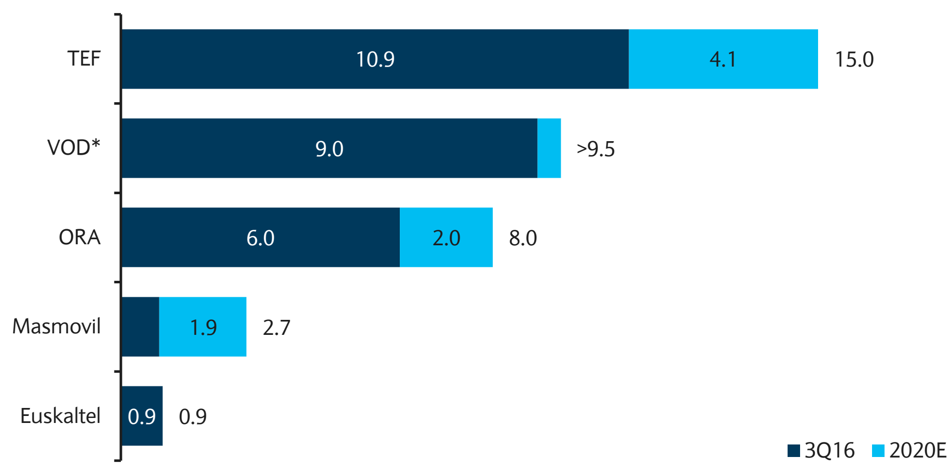
Fixed market – FTTH build + ADSL

State of play in NGN: Three to four

Spain is unusual in that three players are rolling a national NGN infrastructure. This can be partly explained by the fact that rollout costs are lower in Spain than they are in many European countries. Typically rollout costs for FTTH are EUR500-1500/home passed in typical scenarios. However, many European FTTH rollouts appear to have exploited country-specific situations to overcome material investment hurdles. Spain is one of them, with particularly low costs notable because of low civil engineering costs, easy access to ducts and outside location of aggregation point. As such, costs of FTTH per homes passed is typically less than EUR150, to which around EUR150 should be added to connect the house.

FIGURE 7

NGN coverage – Households m



Source: Barclays Research estimates, Companies. Masmovil standalone build targets. *VOD targets by end of 2017E Mar.

TEF is leading in NGN coverage and is moving towards its 12m 2016-18E targets. TEF hasn't communicated an extension of its rollout as it waits for clarification on wholesale pricing. However, whilst TEF is well advanced in terms of NGN network, it is not alone with two other players targeting between c. 40% and 50% of total households in Spain with their own infrastructure. As we have discussed above, Masmovil is now a credible fourth operator with wholesale access to Orange's network as well as ca80% ADSL coverage and its own FTTH rollout plans.

With the acquisition of the cable company ONO, we estimate Vodafone covers 8.5m households at YE2016 (although we estimate this includes 6.2m of cable and 1m of JV arrangement). We believe Vodafone could potentially continue building post 2016.

After the acquisition of Jazztel, ORA claims to cover 9.0m households (partly through shared investments with TEF in circa 2m households, c.1m of wholesale access with ONO and c.1.6m accessed through a JV with Vodafone; hence, there is some overlap in altnet coverage) and plans to expand its coverage to an upgraded target of c. 14m households by 2020E (75% of HHs).

This means that TEF's high investments in NGN do not enable it, in our view, to recreate a massive competition advantage. In fact, as can be noted in the following charts, whilst TEF subscriber trends in broadband have been recovering, the company's market share has been broadly flat.

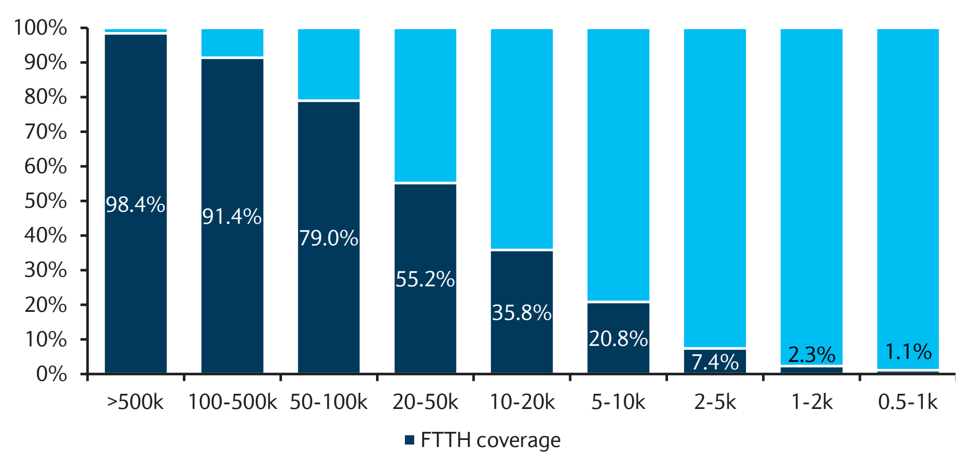
Masmovil becomes a credible fourth player

An FTTH wholesale deal was not a requirement of the ORA/Jazztel remedies but appears a logical step as part of roaming negotiations. Now that the operator is fully converged, with attractive ADSL economics and (presumably) acceptable FTTH wholesale terms, it's difficult to argue against Spain now having a credible fourth converged operator with a clear value focus.

Previously Masmovil had targeted 2.3m households passed with FTTH within three years via a combination of its own network rollout and co-financing with Orange (ca1.5m HHs). Following the announcement of the wholesale plus co-financing deal with Orange, Masmovil announced it would now target significantly more than 2.3m households passed with fibre via a combination of own build, co-financing, wholesaling and the FTTH acquired as part of the remedies. Masmovil will focus on low density areas where competition is lower. With the big three operators concentrating more on high density towns, Masmovil sees an opportunity in towns with populations of between 5-50k. Data from the Industry Ministry in Spain shows that there are more than 5m households in these towns with no fibre coverage.

FIGURE 8

Spain: FTTH household coverage by municipality size

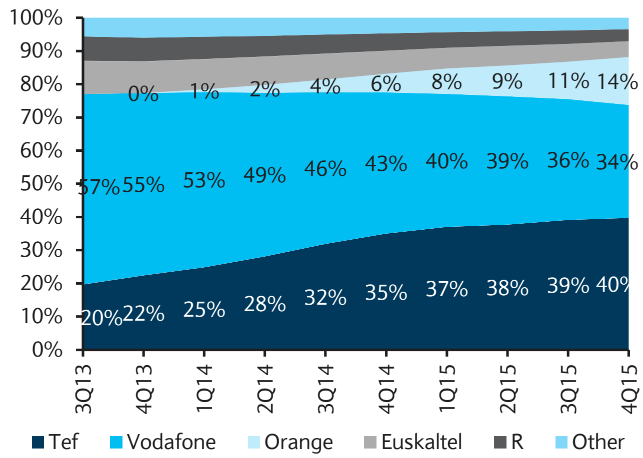


Source: Barclays Research, SETSI

As the chart above shows there is a significant proportion of households in municipalities with populations of 5-50k that aren't currently covered with FTTH. We estimate there are 4m households (HH) not currently covered that Masmovil could target. We estimate rollout per HH will be inexpensive compared to elsewhere in Europe because Masmovil has duct access as well as the option of the aerial route in a number of instances, which could see the cost of passing a household at around €100.

FIGURE 9

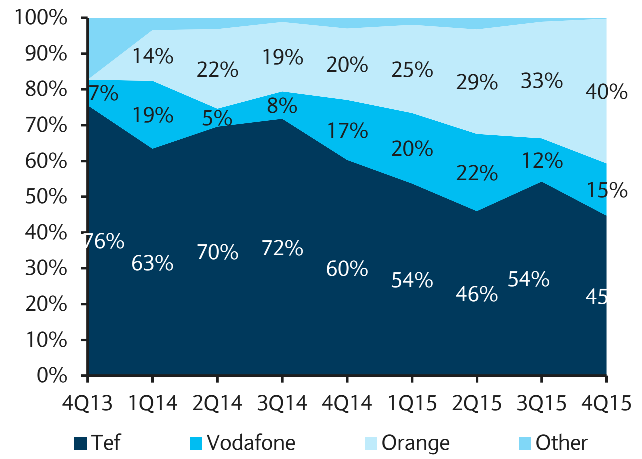
Spain: NGN subscribers market share (%)



Source: Barclays Research, CNMC

FIGURE 10

Spain: NGN net adds market share (%)



Source: Barclays Research, CNMC

FTTH regulation: Unregulated in 35% of the country

In February 2016, Spain's communications regulator CNMC approved the new regulations governing the country's wholesale fixed broadband market. The key elements are:

- Telefonica will have no obligation to provide wholesale access to its fibre-optic network in 66 cities that represent c. 35% of the population. In these so-called 'competitive areas', TEF is not required to open up its network because there are already three or more companies offering superfast internet via fibre or cable connections. It will, however, continue to offer ULL.
- In an area representing c.30% of its FTTH coverage (population not disclosed) it will have to offer VULA (NEBA local) and continue to offer ULL.
- In the rest (17% of the FTTH coverage of TEF, population not disclosed) it will offer its all product set: VULA, NEBA Fibre, NEBA Cobre and ULL.

The CNMC said the regulation had been approved after receiving the green light from Spain's industry and economic ministries as well as the European Commission. The regulator added that it would continue to keep a close watch on the evolution of competition in the fixed broadband market and would revise its rules in three years' time, in accordance with European and Spanish regulations.

FIGURE 11

Wholesale products and price for local access

Product	Price p/m - EUR	Scope	Definition
NEBA Cobre	18	National	Bistream wholesale of BB
ULL	8.6	National	Unbundling of copper line
NEBA Fibra	EUR24 - likely to increase as move to retail-minus		Bistream wholesale of FTTH
VULA (or NEBA local)	Retail minus - TBD (Probably between ULL and Neba Fibre)		Unbundling of FTTH

Source: Barclays Research estimates, Company

More for more and convergence coming together

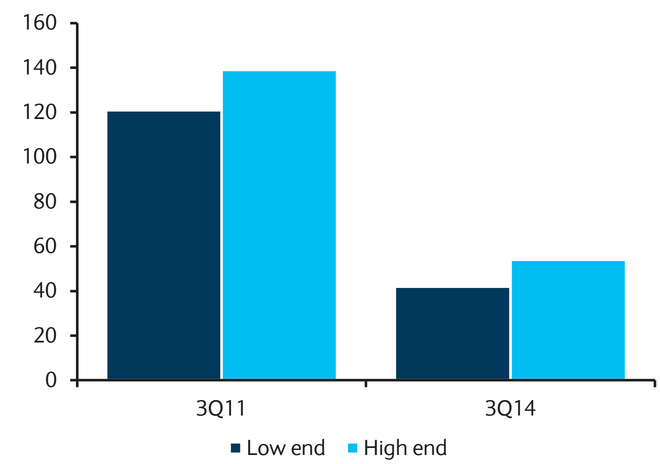
With operators spending significant capital on rolling out fibre networks in Spain, as well as content (companies, rights), there is a need to monetise these investments. Pricing started to recover throughout 2015 and for part of 2016 as the success of TEF's quadplay offering Fusion, the positive impact of FTTH investments and a number of 'more for more' pricing initiatives from all operators took effect. 2016 was more mixed as comparables got tougher and price increases appeared to have some negative impact on volumes. Longer term we note that both Vodafone and Orange are investing in infrastructure and content to reduce the competitive gap vs TEF, but hence will likely be focused on delivering higher ARPUs to maintain returns. However, the progress of Masmovil's strategy (acquisition of mobile assets, FTTH access/rollout) could deliver an incremental drag on market growth.

One of the key tools that has been used by Telefonica to stabilise its revenue has been the launch of Fusion products, an innovative quadplay product (fixed telephony, broadband, pay tv and mobile bundle).

The product was initially launched as a way to recover market share thanks to attractive pricing that represented significant discounts to the sum of the individual products. This enabled TEF to stabilise its market share across products. TEF then introduced a number of 'more for more' price initiatives. Vodafone has subsequently introduced a similar product called Vodafone One.

FIGURE 12

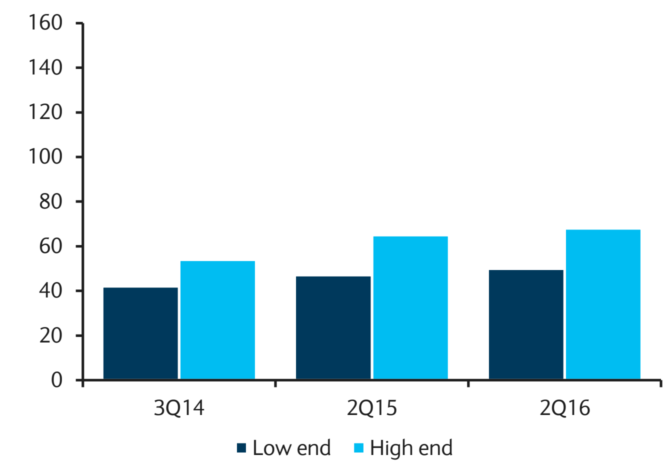
TEF: Initial fusion prices gave significant discounts…(€/m)



Source: Company data. Low end bundles: 3Q11: ADSL 10 megas + 500 min 500MB - 3Q14: ADSL/FTTH 10 megas + 100 min 500MB and TV web (2) High end bundles: 3Q11: FTTH 100 megas + 500 min 500MB - 3Q14: FFTH 100 megas + 100 min 500MB and TV web.

FIGURE 13

…but prices are now starting to recover (€/m)

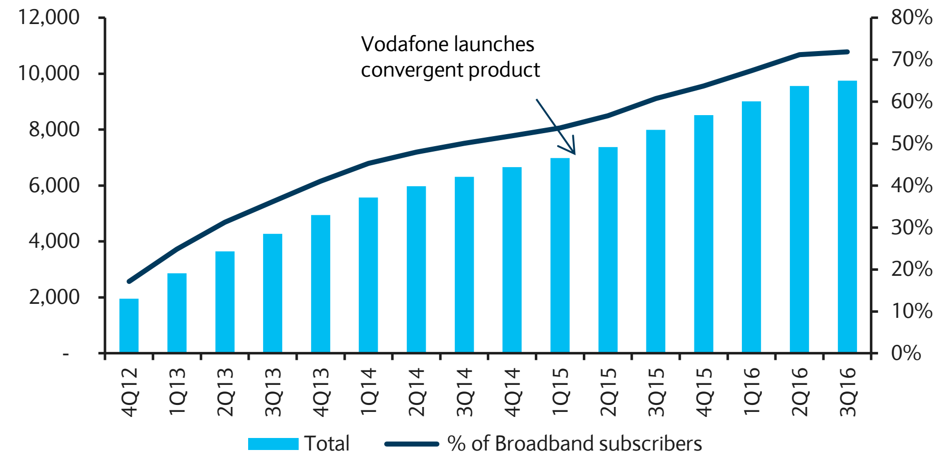


Source: Company data. Low end bundles: 3Q11: ADSL 10 megas + 500 min 500MB - 3Q14: ADSL/FTTH 10 megas + 100 min 500MB and TV web (2) High end bundles: 3Q11: FTTH 100 megas + 500 min 500MB - 3Q14: FFTH 100 megas + 100 min 500MB and TV web.

As a result, Spain is now a market where the proportion of converged subscribers is one of the highest, as can be seen below. In 3Q16, 71% of TEF's broadband customers took a Fusion a product. Vodafone launched its own convergence product, Vodafone One, in May 2015 and already has 2m subscribers or ca65% of its broadband base. Orange has actually been the most successful (in part aided by Jazztel's success), signing up over 80% of its broadband base for the convergent offer. We estimate that at least 70% of broadband subscribers in the market are taking a converged product today.

FIGURE 14

Spain: Convergent Fixed/Mobile subscribers – 000s

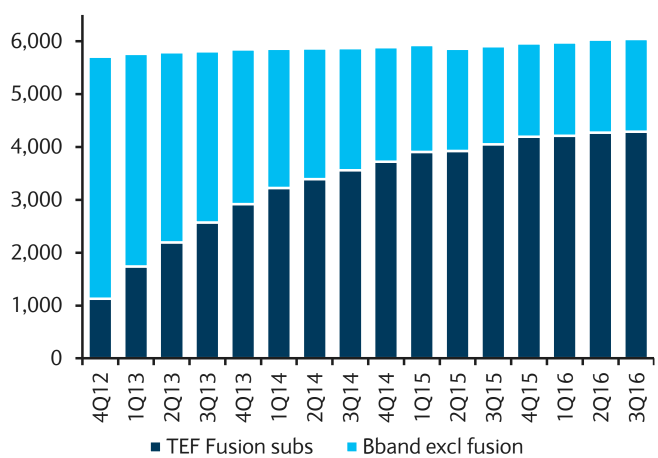


Source: Barclays Research, Company data

Growth in Fusion customers has been slowing down at TEF since the beginning of 2016. The company indicates that churn is stable but the recent price increases may start to have a negative impact on volumes. Orange's converged base would appear to be reaching saturation whilst Vodafone's momentum, like TEF's, appears to be slowing.

FIGURE 15

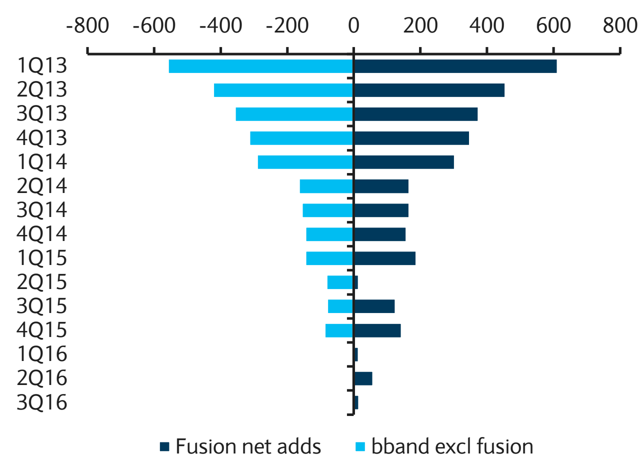
Telefonica: Broadband and Fusion subscribers - 000



Source: Barclays Research, Company data

FIGURE 16

Telefonica: Broadband and Fusion net adds - 000



Source: Barclays Research, Company data

On our estimates Masmovil had ca50k broadband subscribers at the end of 1H16 and is targeting 100k subscribers by the end of 2016. This would give them less than 1% of market share but were Masmovil to reach 2% market share by YE17 this would equate to ca290k subscribers. At an ARPU of €25 per month this could be worth €90m of revenues, on our estimates.

Telefonica pricing umbrella

As alluded to above, TEF has introduced more for more initiatives as it seeks to raise prices. TEF has ramped up a number of price increases since the beginning of 2015. In May 2016 all the price increases from 2015 were in place for the FY, which explains why revenue trends in the domestic business slowed from +0.2% yoy in Q1 to -0.1% in Q2. There have been, however, new price increases since the beginning of 2016 that should provide support.

FIGURE 17

Telefonica price changes since 2015

Product	Change	Applied on	Date	Subs - 000s - (e)
Announced for 2015				
Fixed products				
Single play	Increase in phone rentals, VAS,	1P residential clients	Jan-15	3,176
Double play	Increase of EUR2 to EUR3 in monthly fee	2P residential clients	Apr-15	1,186
Mobile products				
Prepaid	10% increase in price per minute	Residential clients	Jan-15	3,328
Contract	Increase of EUR1 - EUR3 in monthly fee	Mobile residential clients on Vive plans	Feb-15	2,184
Quadplay - 'Fusion'	Increase of EUR5 in monthly fee	Fusion clients	May-15	3,717
Announced for 2016				
Fixed products				
Non convergent offers	Increase of EUR3	1P and 2P residential clients	Jan-16	1,209
Mobile products				
Contract	Increase of EUR1 in monthly fee		Jan-16	2,184
Quadplay - 'Fusion'	Increase of EUR3 in monthly fee	Fusion mobile only clients	Feb-16	4,048
Quadplay - 'Fusion'	Increase of EUR3 in monthly fee	Fusion mobile only clients	Feb-16	1,477
Quadplay - 'Fusion'	Increase of EUR2-5 in monthly fee	Fusion clients	Aug-16	4,209
Announced for 2017				
Quadplay - 'Fusion'	Increase of EUR5 in monthly fee	High end fusion clients	Feb-17	na

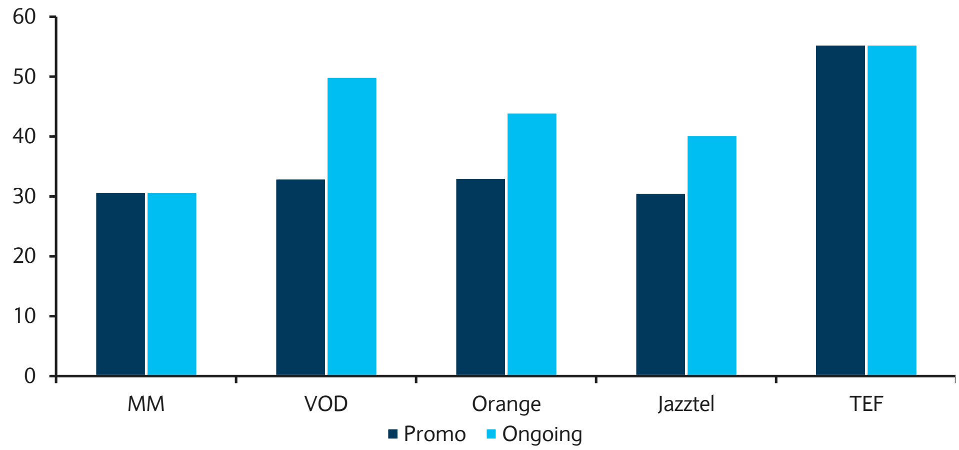
Source: Company, Barclays estimates

Positively, the two other large competitors (Vodafone and Orange) have been following most price increases. This creates an opportunity for Masmovil to be competitive on prices.

For internet-only packages, Masmovil prices at a competitive rate, typically undercutting the incumbents. Noticeably, TEF, Orange and Vodafone charge the same monthly subscription fee for ADSL broadband and their slowest fibre broadband. For example, a customer whose home is not covered by fibre would pay the same for 20Mbps ADSL broadband as they would for 50Mbps fibre by choosing the 'Fibra Optica 50Mb' broadband tariff for €38 a month at TEF, or a similarly priced package at Orange/Jazztel and Vodafone. Masmovil sees this as an opportunity for the millions of homes not yet covered by fibre. With the major operators concentrating on triple/quad play bundles, there is also scope for Masmovil to grow in double play, in our view.

Masmovil also offers the same price for ADSL vs 50Mbps fibre; however, we note the price doesn't include the initial promotional discount provided by competitors. The large operators typically offer a large promo discount before the price increases post the promotional period. For a basic broadband subscription we can see below that Masmovil is in line with competitors, but its ongoing price is the same and therefore significantly cheaper than competitors ongoing tariff prices. We estimate competitors offer a discount of between 0-35% on their basic broadband tariffs whilst Masmovil's basic broadband tariff is on average 35% cheaper than competitors' ongoing prices.

FIGURE 18
Value broadband prices, promotional versus ongoing (€/m)



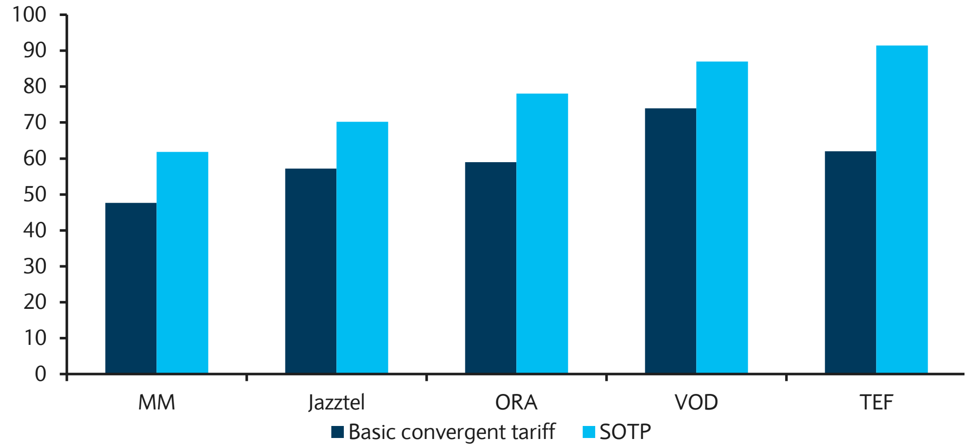
Source: Barclays Research, Company data.

Despite the slowdown in convergent subscriber additions, we still expect convergent penetration to continue to increase. For example, we estimate the broadband market grew by ca200k subscribers in the first 9M of 2016 whilst the number of convergent subscribers increased by 1.23m (compared to 527k/3.1m in 2015). Masmovil has 50k broadband subscribers compared to 4.3m mobile subscribers, meaning it has little backbook risk on its broadband base and also a large number of relationships it can target with convergent offers.

The appeal of convergent products has been the significant discounts offered by operators to customers if they bundle numerous products together compared to purchasing each product individually. We estimate the operators currently offer a 20% discount compared to the sum of individual products for a basic convergent tariff with TEF offering the biggest discounts. Discounts are even larger for the tariffs with premium content. Operators also include more mobile value when the mobile tariff is included into a converged bundle. For example, Orange's Tucan tariff includes 150 minutes and 1.5GB of data per month, but this increases to 200 minutes and 2GB when it is part of a convergent tariff.

FIGURE 19

Basic convergent prices vs sum of individual (€/month)



Source: Barclays research estimates, Company websites.

Masmovil's convergent product includes fixed telephony, mobile and broadband (either ADSL or fibre) with an option to add wuaki.tv, a Netflix-like service. The tariffs allow the addition of up to two additional mobile lines that come with 500Mb of data each as well as the ability to top up data by 200MB/500MB/1GB for €2/€5/€8.5. 300MB fibre broadband costs just €10 per month more than the 50MB offering.

FIGURE 20

Masmovil: Quadplay tariffs (€/m)

Tariff	Converged	Converged	Converged	Converged	Converged	Converged	Internet only	Internet only
Fixed voice	Unltd to landline + 60Min to mobile	Unltd to landline + 60Min to mobile	Unltd to landline + 60Min to mobile	Unltd to landline + 60Min to mobile	Unltd to landline + 60Min to mobile	Unltd to landline + 60Min to mobile	Unltd to landline + 60Min to mobile	Unltd to landline + 60Min to mobile
Broadband	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Speed	50Mbps	50Mbps	50Mbps	300Mbps	300Mbps	300Mbps	50Mbps	300Mbps
TV	NA	NA	NA	NA	NA	NA	NA	NA
Mobile Voice	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	NA	NA
Mobile SMS	9.68 cent/SMS	9.68 cent/SMS	9.68 cent/SMS	9.68 cent/SMS	9.68 cent/SMS	9.68 cent/SMS	NA	NA
Mobile Data	1	3	8	1	3	8	NA	NA
Package tariff	16.90	19.90	26.90	26.90	29.90	36.90	10.00	25.00
Line Rental	19.90	19.90	19.90	19.90	19.90	19.90	19.90	19.90
Other costs	10.00	10.00	10.00	10.00	10.00	10.00	9.99	0.00
Monthly cost	**37.63**	**40.63**	**47.63**	**47.63**	**50.63**	**57.63**	**30.73**	**44.90**

Source: Barclays Research, Company data.

Low-end converged product pricing shows Masmovil as a value player again, although it does compete with Jazztel in this respect. We do not believe these tariffs (and the ones above) are likely to fully reflect the terms of the new ADSL and FTTH deals from ORA and therefore could yet become more competitive. Jazztel does offer a basic convergent 20MB broadband product for €19.3/month.

FIGURE 21
Value quad play pricing (50MB fibre)

	Telefonica	Vodafone	Jazztel	Orange	Masmovil
Quadplay	Fusion Contigo 300MB	Fibra Ono 50MB Esencial Movil S	Savings Pack 1.5GB 200min + Fiber 50	Fiber 50MB + Mobile	Fibra50MB/ADSL + 1GB
Fixed voice	Unlimited calls to landline	Unlimited calls to national fixed and mobile	Unlimited to landline + 60min/month to mobile	Unlimited calls to landline + 1000 mobile minutes + 60 minutes to mobiles	Unlimited landline calls
Speed	Symmetical 300Mbps	50Mbps	50Mbps	50 Mbps symmetrical	50Mbps
TV	Freeview HD*	Vodafone TV online**	Optional	Optional	Optional
Mobile Voice	200Min	200	200 Min	200 Min	Unlimited
Mobile SMS	Unlimited	12c/SMS	18.15 cents/SMS	12 Cents / SMS	9.68c/SMS
Mobile Data (GB)	2	2	2	2	1
Post-promo price	**62.0**	**62.0**	**45.13**	**46.95**	**37.63**
Effective monthly cost	**46.5**	**59.5**	**41.1**	**41.08**	**37.63**

Source: Barclays Research, Company. *A catalog of over 6,000 titles to enjoy anywhere, anytime is included. **70+ channels, videoclub with 3200 titles, free

At the premium end Masmovil is limited by its lack of TV offering. It does offer wuaki.tv access for free for the first three months and €5 thereafter; it includes access to 4000 films and series content. Masmovil's 300MB product is priced competitively compared to peers even when adjusting for the TV products included by peers.

FIGURE 22
Value quad play pricing (300MB fibre)

	Telefonica	Vodafone	Jazztel	Orange	Masmovil
Tariff	Fusion Contigo 300MB	Fibra Ono 300MB Esencial Movil S	Savings Pack 200MB + 1line	Fiber 300MB + Mobile	Fiber 50MB + 1GB
Fixed voice	Unlimited calls to landline	Unlimited calls to national fixed and mobile	Unlimited to landline + 120min/month to mobile	Unlimited calls to landline + 1000 mobile minutes	Unlimited to landline + 60Min to mobile
Speed	Symmetrical 300Mbps	300Mbps	200Mbps	300 Mbps symmetrical	300Mbps
TV	Freeview HD*	Vodafone TV online**	Optional	Optional	Optional
Mobile Voice	200Min	200	200 Min	200 Min	Unlimited
Mobile SMS	Unlimited	12c/SMS	18.15 cents/SMS	12 Cents / SMS	9.68 cent/SMS
Mobile Data	2GB (4G)	2GB	2	2	1
Post-promo price	**62**	**74**	**57.23**	**58.95**	**47.63**
Effective monthly cost	**46.5**	**67.8**	**50.68**	**50.08**	**47.63**

Source: Barclays Research, Company. *A catalog of over 6,000 titles to enjoy anywhere, anytime is included. **70+ channels, videoclub with 3200 titles, free

Yoigo brand awareness could provide tailwind to operating momentum

With the purchase of Yoigo, Masmovil acquired the fourth largest mobile network operator in Spain plus a well-recognised and respected brand. Yoigo is a challenger brand and targets value customers successfully with its innovative tariffs, in particular its 'La Sinfin' tariff. Masmovil has yet to market a convergent product under the Yoigo brand, which has a much higher spontaneous awareness than the Masmovil brand, in our opinion. We also believe that a significant proportion of Yoigo churners have left historically due to a lack of a convergent offerings. Therefore, the launch of a Yoigo branded convergent product we believe will be a tailwind to operating momentum especially if it fully incorporates the benefits of the new FTTH deal with Orange. We would expect a launch before the end of 1Q17.

In terms of mobile pricing we note that Masmovil is relatively aggressive on data-only tariffs, with a €5/month SIM with 1Gbyte per month. Customers can tailor their own tariff by choosing how many minutes and data they would like per the following table. SMS are not included and cost 9.68c per message.

FIGURE 23
Masmovil mix and match tariffs

€/month		GB				
		0	0.5	1	2	4
Mins	0	3.63	3.7	5	9.9	14.9
	40	5.93	6	7.3	12.2	17.2
	100	7.63	7.7	9	13.9	18.9
	250	11.63	11.7	13	17.9	22.9

Source: Company website,

Masmovil also offers more traditionally set tariffs. For example, adding unlimited voice to a 1GB tariff increases the price to €17/month, more expensive (but with more voice minutes) vs. low-end contracts from all the key operators. In the medium range they offer 3GB for €20/month, which is relatively attractive vs. TEF, VOD and ORA, but more expensive than Jazztel (albeit with unlimited vs. 200 minutes voice calling). High-end data bundles are cheapest on Masmovil vs. peers, per the following table. Therefore we'd characterise Masmovil pricing as selectively aggressive, particularly on data only, and on big bundles. Masmovil is currently offering their 3GB tariff and 8GB tariffs with a three-month discount of €3/€7 per month and plans to continue the promotion until at least the end of 1Q17. Competitors are currently offering discounts of up to 50% on a range of their tariffs so the current environment remains competitive. However, underlying ongoing prices have remained relatively unchanged for the last year or so.

FIGURE 24
Spanish mobile pricing

	TEF	VOD	ORANGE	JAZZTEL	YOIGO	MASMOVIL
Contract Low End	Live 13	Mini S	Colibri	LA DEL CERO 1.2 GB	Ahorrar	1GB de datos
Price	13	14	11.95	11	12.95	16.9
Voice (Mins)	0c/min + 20c connection fee	0 Cents / Min+ 20c connection fee.	€0c/min + connection fee 20c	€0c/min + connection fee 20c	150	Unlimited
SMS	Ten first SMS: 20 cts / SMS. Rest: free	12 Cents / SMS	12 Cents / SMS	12.1 Cents / SMS	10 Cents / SMS	9.68c/SMS
Internet (GB)	1	1.5	1	1.2	1.5	1
Contract Medium	Live 34	Smart S	Delfin	LA DEL CERO 5 GB	Navegar	3GB de datos
Price	34	25	31.95	19	18.95	19.9
Voice	Unlimited	200 Min.	Unlimited	100 Min.	100	Unlimited
SMS	Unlimited	12 Cents / SMS	12 Cents / SMS	12.1 Cents / SMS	10 Cents / SMS	9.68c/SMS
Internet (GB)	2.5	2	3	5	5	3
Contract High	Live 45	RED L	Ballena	LA SINFIN	Todo	8GB de datos
Price	45	45	41.95	32	26.95	26.9
Voice	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
SMS	Unlimited	Unlimited	12 Cents / SMS	12.1 Cents / SMS	10 Cents / SMS	9.68c/SMS
Internet (GB)	5	6	6	25	7	8

Source: Barclays Research, Company.

Cost-cutting opportunities

The new NRA does have a minimum fee structure set that increases each year. Previously, Pepephone roamed on the Vodafone network. The new group-wide NRA is therefore more economical than the three individual NRAs. We estimate the majority of savings should be delivered by late 2017 and fully delivered by June 2018. In the following table we summarise the various changes. In a recent press release Masmovil reconfirmed their c.€60m MVNO savings target. We explicitly model this. A potential issue could have been roaming for subscribers during the migration from TEF's network to Orange's. Fortunately in December 2016, Masmovil announced that TEF had agreed to continue to provide roaming services for Masmovil customers until they are fully migrated to Orange's network. The company also indicated further savings could be possible from the shut-down of Yoigo's 2G network.

The synergies from the new roaming contract as well as migration of Masmovil and Pepephone subscribers will provide significant margin expansion potential. The €60m would increase 2016E pro-forma margins by 5.5pp on our estimates. We expect the full realisation by 2018E where we model margins of 16.2% vs 10.6% in 2016E on a pro-forma basis.

FIGURE 25

Masmovil MVNO cost savings drivers

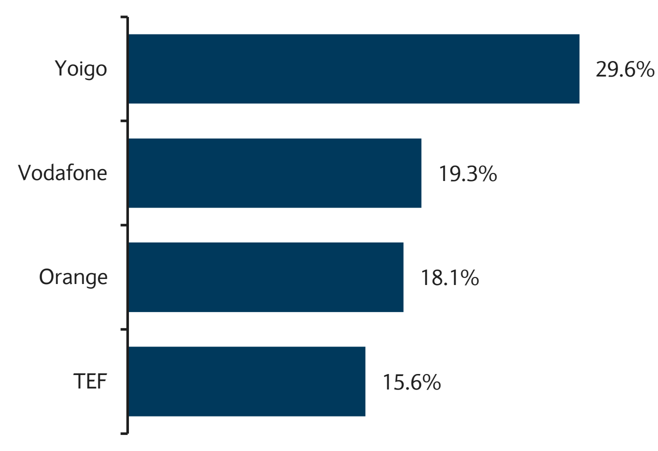
Brand	Roaming partner	Current situation	Current cost	Anticipated saving
Yoigo	TEF	c.40% roaming traffic	>€110m	Shifts to ORA, savings NA
Masmovil	Orange	0.5m subs, flexible contract	>€10m	c.60% saving under TEF/Yoigo terms
Pepe	TEF	0.5m subs, contract to June '18	>€35m	c.60% saving under TEF/Yoigo terms

Source: Company presentation, per investor presentation on website.

Masmovil also sees significant savings from churn reduction, particularly at Yoigo. Yoigo has increased margins from 7.3% in 2013 to 9% in 2015 according to Telia's reporting. In the first nine months of 2016, we estimate Yoigo's margins had expanded a further 2.2pp yoy compared to the first 9M of 2015. As seen across Europe, convergence can drive significant churn reduction. We model a reduction in marketing costs of €30m between the end of 2017E and 2019E, which is 12.5% of our 2019E EBITDA estimate.

FIGURE 26

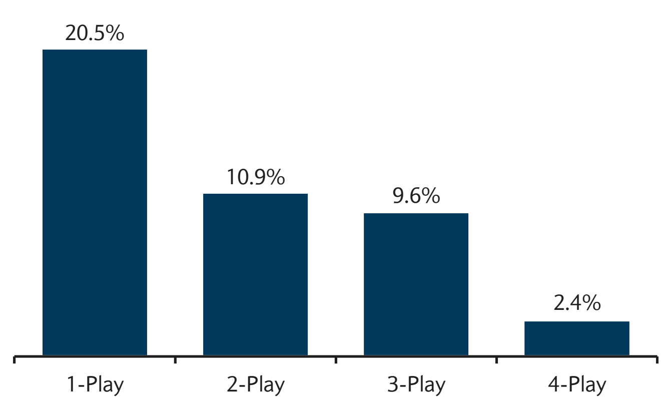
Spain: Postpaid churn (%)



Source: Barclays Research, company data.

FIGURE 27

Proximus: Annualised Churn – 3Q16 (%)



Source: Company presentation

Lack of content could be an issue

Spain has a relatively low, albeit growing, pay-TV penetration with the move towards convergence being promoted through pay-TV offers. Telecom operators have increasingly focused on acquired content, to improve the attractiveness of 3-play/4-play bundles.

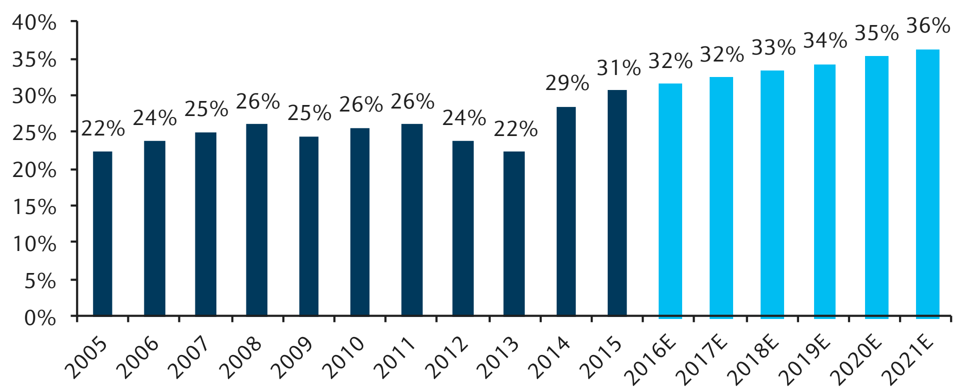
- **Telefonica's business plan involves becoming a leading content provider.** In 2014 Telefonica acquired Mediaset Espana's 22% stake in DTS (Canal+'s holding company) for €295m and Prisa's 56% stake in DTS for €725m, in a bid to gain full ownership of the pay-tv operator and increase customer value and retention by offering bundles of phone, broadband and TV. This acquisition established Telefonica as the major pay TV operator in Spain.

- **Vodafone** agreed to buy Spanish cable operator Ono for €7.2bn to provide access to high speed fixed infrastructure and to improve TV and broadband offerings. Other telecom operators, including Orange, have acquired television rights as well in the market's relatively active 'content war'.

- In 2015, Canal+ and Movistar TV merged and created Movistar+, which allows subscribers to watch video on demand. This new platform meant that new channels were created to broadcast the latest films and American cable TV series.

Spain's pay-TV market has delivered more vertical integration than most other markets in Europe as a result of TEF's move to acquire DTS. The emphasis on owning content and producing original content suggests the Spanish market relies more on exclusivity.

FIGURE 28
Spain: Pay TV Penetration %



Source: CNMC.

Content ownership dynamics

There have been a number of changes in terms key content ownership in recent years in Spain, in particular we note the following:

- On 4 December 2015, the Spanish football league disclosed the winners of three out of the 10 lots that were auctioned for the next three years' broadcasting rights to football matches for the first and second divisions and Copa del Rey. Catalan broadcaster Mediapro together with BeIN Sports out bid Telefonica's Movistar TV for exclusive rights to 'Lote' 6, which provides rights to eight matches per week in the first division (with third choice option) and all the Copa del Rey (except for semi-finals and the final). TEF got 'Lote' 5 for EUR750m, which provides rights for one match per week of the first division (with first choice) and one match per week of the second division (also with first choice). 'Lote' 8, which provides rights for all games for non-residential venues broadcasting (restaurants, bars…), was allocated to a JV between Vodafone/Orange for EUR300m.

- **Movistar Futbol** currently holds the rights to show the English Premier League along with the 2018 FIFA World Cup qualification (all matches except Spain games).

- TVE (Television Espanola) has the rights to show the 2018 FIFA World Cup Qualification, and it had the rights to show the 2016 FIFA Club World Cup Final and one Semi-final; while Telecinco has the rights to show all friendly games until 2018. TVE is a Freeview state-owned public service broadcaster in Spain and Telecinco is a channel operated by Mediaset.

- BeIN Sports has also secured rights to the European Champions League football and Europa League. It has confirmed distribution deals with Vodafone, Orange, Telecable and Movistar. On 12 January 2016, TEF signed a deal with Mediapro/BeIN Sports to distribute their two football channels BeIN Sports La Liga (which includes all the Spanish content) and BeIN Sports Champion (which includes all the international content) for the 2016/2017, 2017/2018 and 2018/2019 seasons.

- TEF will pay EUR800m per year for the Mediapro/BeIN Sports deal. As this comes in addition to the EUR250m per year that TEF will spend for Lote 5, bringing total soccer-related content costs up from c. EUR700m in 2015/2016 to EUR1,050m for the following three years, i.e. a 50% increase. We assume that the international content represents c. EUR100m for 2015/2016 and the following seasons.

Based on these elements we derive the estimates shown in the table below, which quantify the overall cost to Spanish telecom operators for soccer. Beside the information above we assume the following:

- The price TEF is paying for the Mediapro/BeIN Sports content is reduced by 1/3 as it shares the content (and cost) with Vodafone and Orange. We assume a price of 1/3 of TEF's total costs in line with the mechanics of the 2015/2016 season.

- ORA and VOD buy from TEF the right to distribute its own La Liga content. We also assume a price of 1/3 of TEF's total costs.

- Overall this means that wholesale Pay TV revenues come down by EUR127m yoy for TEF whilst costs increase by EUR83m, a total net negative impact of EUR200m yoy.

FIGURE 29

Spain: Soccer wholesale revenues and costs

2015-2016	EURm	2016-2017/2017-2018/2018-2019	EURm	% change
Wholesale revenues	**200**	**Wholesale revenues (potential)**	**83**	**-58%**
TEF costs - Spanish football content	600	TEF costs - Spanish football content	683	14%
TEF costs - International football content*	100	TEF costs - International football content*	100	0%
Total costs	**700**	**Total costs**	**783**	**12%**
Net direct contribution	**-500**	**Net direct contribution**	**-700**	**40%**

Source: Company Data, Barclays Research

- Following a disagreement and appeal to the Spanish regulator, Vodafone and Telefonica have reached an agreement whereby VOD will be able to air Formula 1 and MotoGP from the start of the new season in 2017. This comes after Telefonica refused to make its exclusive motorsport coverage available before July. This demonstrates the regulator's reluctance to see fully exclusive content in Spain

Original content creation occurring at Spanish telcos

Telefonica invested in their original content production earlier this year – Movistar+ is commissioning a drama series based on the 2010 bestselling novel, Dime Quien Soy, by Julia Navarro. Movistar+ intends to produce between six and eight television series each year from 2017. In September 2016, Movistar+ entered an agreement with CBS Studios to become the official home of Showtime programming in Spain with exclusive use of the Showtime brand. The exclusive licensing agreement will give Movistar the linear and SVOD rights to all future Showtime-owned series as well as current ones. This demonstrates how Telecom operators are the main content distributors in the Spanish market and exclusivity to content is an essential feature. Although as mentioned above (BeIN Sports), not all content is exclusive to one operator.

- From 1 November, Orange customers were able to access Netflix HD on two simultaneous screens through its TV offering. Netflix is being offered for free for three months to subscribers of Orange's Cine y Series package, after which subscribers can sign up for Netflix at €9.99/month. Vodafone had a similar deal whereby customers can access Netflix for free for six months.

Pay-TV operator dynamics

Telefonica Movistar

- Fusion+ Package (€85/month) – includes Broadband, Mobile/Landline and a Premium TV package. This includes access to Movistar+ and major sports channels showing La Liga, the Champions League and Europa League.
- By upgrading to the Fusion+2 package for €110/month, customers get access to more sports content and two mobile phone lines.
- Premium Extra package (€65/month) – This is a TV-only package that includes all sports, cinema and series programming as well as Movistar+, five a la carte channels and programmes on demand for seven days after live broadcast.

Vodafone customers can purchase the Vodafone One Take package, which includes the Football TV package for €40/month for six months and €80/month on thereafter, which includes access to BeIN Sports channels, which show La Liga, Copa del Rey matches, the Champions League and the Europa League. Alternatively, customers can add the Football package to their current bundle for an additional €18/month.

When Netflix launched in Spain in October 2015, DigitalTV reported (1/9/15) that Vodafone was the first ISP to offer a six-month promotion during which the service would be available free of charge to Vodafone One and Vodafone Red customers.

On **Orange,** customers can add premium channels to their bundles. BeIN Sports is available for an additional €5/month for the first six months and then €10/month thereafter.

FIGURE 30

Spain: Price for premium mixed bundles

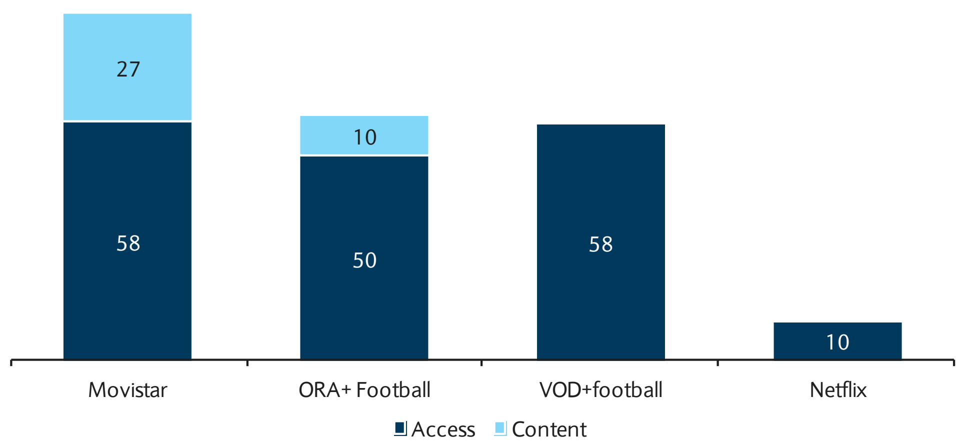
	Movistar	Vodafone	Orange	Netflix
Bundle name	Fusion+ Package	Vodafone Extra TV	Love without Limits	2 Screens HD
Key Content	Fiber optic 300Mb/Mobile/Landline and Premium TV including all sports (beIN Sports inc), cinema and series programming, Movistar+	Broadband/70 channels + football package (inc. beIN Sports and El Partidazo)	1 Mobile line/4GB data/unlimited calls/fibre broadband/Orange Film and TV series, Football TV	All content on 2 simultaneous screens +HD
Price/mth	€ 85	€ 40 for the first 6 months and then € 80 thereafter	€ 30 for Mobile + Broadband for 3 months and € 71 thereafter. € 8 for Orange film/TV + € 10 for Football TV + € 5/mth for BeIN Sports	€ 10

Source: Company data

Movistar and VOD packages (inclusive of sports) are broadly priced in line with each other; however, Orange offers the best value for money at €60 as its football package includes BeIN Sports, La Liga and El Partidazo (the same as the others). The VOD football package as a standalone costs €18/month vs. ORA football package a €10/month.

FIGURE 31

Spain: Price/month for premium mixed bundles (€)



Source: Company data

FIGURE 32

Spain: Basic Packages

	Movistar	Vodafone	Orange	Netflix
Bundle name	Merger with You	Vodafone Extra TV	Love Essentials	2 Screens HD
Key Content	2 Mobile lines/200 mins/2GB/fixed line/fiber optic 50Mb/Movistar+ on all devices	Broadband/70 channels + football package (inc. beIN Sports and El Partidazo)	1 Mobile line/2GB data/200 mins/fibre broadband/Orange Film and TV series, Football TV	All content on 2 simultaneous screens +HD
Price/mth	€ 50	€ 40 for the first 6 months and then € 80 thereafter	€ 24 for Mobile + Broadband for 3 months and € 60 thereafter. € 13 for Orange film/TV + € 10 for Football TV + € 5/mth for BeIN Sports	€ 10

Source: Company data

Financing, shareholder structure

Masmovil has undertaken some innovative financing arrangements to fund its numerous acquisitions and exponential growth to become the fourth largest convergent operator in Spain.

Capital raise

In July, as part of its financing plans, Masmovil successfully completed a capital increase for €160 through an accelerated placement mechanism. As part of the process 8.184m shares were issued at a price of €19.55.

Convertible with Providence Equity Partners

Providence Equity Partners is a private equity firm with significant experience in the Telecoms sector. Former and current portfolio companies include Ono, TDC, Kabel Deutschland, Com Hem and Bite (Baltic mobile operator). Masmovil issued a €165m convertible to Providence Equity Partners with the following terms:

- The convertible has a maturity of eight years with a 6.35% per year quarterly coupon.
- Half the coupon can be paid in cash and the remaining in kind at Masmovil's discretion.
- The conversion price is set at €22 per share and cannot be exercised for 29 months after issuance.
- The convertible is not listed and contains customary clauses for dilution protection and other convertible features.

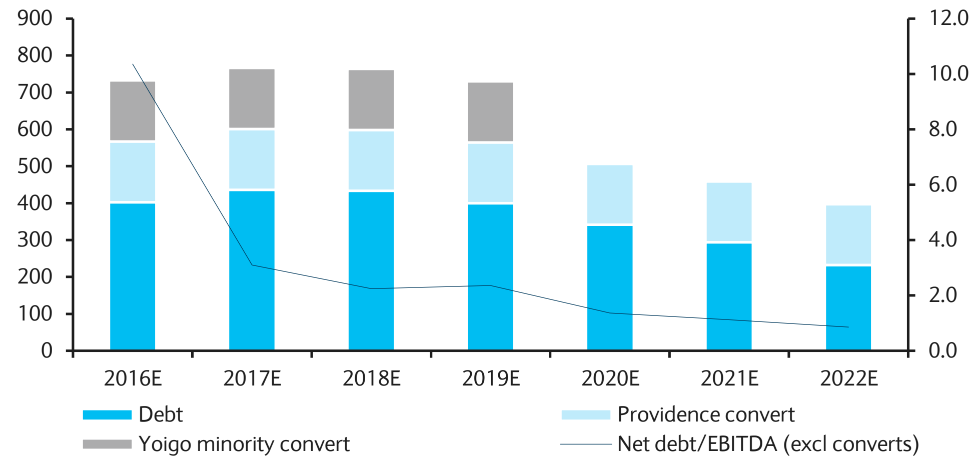
Convertible with earnout related to Yoigo acquisition

Minority shareholders (ACS, FCC and Abengoa) in Yoigo before the acquisition by Masmovil received long-term convertible shares equal in value of up to €165.5m for their stake. The actions of these minority shareholders therefore play a part in Masmovil's leverage. With regards to the convertible, the holders can choose to cash out their convertible shares, which are secured by a bank guarantee, at any point within the first two years. The conversion price is €25 per share for the first three years. However, the holders of the convertible can earn €96m in total as part of an included earnout. The earnout stipulates that if Masmovil reaches an EBITDA of €300m by 2019E then they will receive €96m. If EBITDA is below €210m then they receive nothing. Between the two hurdles, the earnout increases linearly. Conversion of the convertible loses the right to this earnout (we estimate EBITDA of €239m by 2019E). At the point of the earnout assessment the conversion price increases to €40 per share regardless of the earnout amount. Assuming a scenario where Masmovil generates EBITDA of €300m in 2019E, (and Abengoa has cashed out for €21m, the company believes this is the most likely scenario) then the convertible amount would increase to €240m with a strike of €40 per share, ie if the full earnout is generated the remaining owners can receive 6m shares compared to 5.8m if they converted pre earnout (144m/€25 per share).

Debt structure now

The debt structure is therefore a mixture of debt and convertibles. Net debt therefore depends on various scenarios. The chart below shows the net debt progression and how convertibles have contributed a significant amount of the funding. We assume 1 convertible converts in 2020E as the strike price is currently below the current share price.

FIGURE 33
Masmovil: Debt progression



Source: Barclays Research estimates

Shareholder structure

In July 2016, a group of shareholders representing more than 50% of the issued share capital of Masmovil renewed a lock-up agreement that expired in early June 2016. The general terms were similar to the prior agreement

List of managers with more than 1%:

- Key Wolf, S.L.U.1 6.7%
- Aldebarán Risk SCR2 3.7%
- Inveready Seed Capital S.C.R. And Inveready Capital Company S.L. 2.7%
- D. Meinrad Spenger 1.2%

Employee incentive plans currently accounts for approximately half a million share options with a strike price of €20.42.

Shareholder pact

A group of shareholders including two members of the board of directors entered into a pact as announced on 27 October 2016. The two board members in the pact includes Inveready and Key Wolf. In addition the Onchena family office has entered the pact, bringing the total shares to 31.3%. The pact assumes that members will cast their votes in tandem with Inveready, or if Inveready does not define its vote, in tandem with Key Wolf. The parties can still vote differently if they deem it appropriate. The parties in the pact are still able to vote in matters directly affecting the value of the shares.

FIGURE 34

Ownership structure

Investor	Stake
Providence	18.0%
Other BoD members	14.5%
Onchena (Family office)	17.1%
Other investors > 3%	18.3%
Other members syndication pact	1.2%
Free float	31.0%

Source: Company

Estimates and valuation

MM is set to deliver three-year CAGR +5% driven by convergent and Broadband revenues. Combined with lower roaming costs (c. EUR60m savings adding 5pp of EBITDA margin) and lower churn, this should enable a 25% three-year EBITDA CAGR. We expect MM to move to positive FCF by 2018E driven by higher EBITDA and lower capex as FTTH rollouts tail off. This should lead to gradual deleveraging of the balance sheet.

Valuation

We value Masmovil using a DCF methodology. We use a WACC of 9.5% and a terminal growth rate of 1%. The WACC is high compared to what we use for larger companies in the sector (typically 6-8%) but reflects what we believe is a higher execution risk given the fact that Masmovil is the result of multiple acquisitions in the last two years and the business plan, whilst very credible, in our view, remains largely unproven at this stage.

FIGURE 35

Masmovil: DCF (€m)

DCF - EURm	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
EBITDA	193	239	251	261	273	283	301	319
minus depreciation	-156	-153	-150	-145	-143	-140	-128	-67
EBIT	37	86	101	116	130	143	173	252
Tax	-9	-22	-25	-29	-33	-36	-43	-63
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Nopat	28	65	76	87	98	107	130	189
minus capex	-141	-139	-123	-137	-127	-79	-69	-71
plus depreciation	156	153	150	145	143	140	128	67
Working capital	0	0	0	0	0	0	0	0
CF for discounting	42	78	104	95	114	168	188	185
Discount factor	91.3%	83.4%	76.2%	69.6%	63.5%	58.0%	53.0%	48.4%
Discounted CF	39	65	79	66	72	98	100	90

Source: Barclays Research estimates, Company data

Despite this high WACC we still derive from our DCF an attractive valuation of €33 per share using a fully diluted share count, i.e. 25% upside potential at current levels.

FIGURE 36

Valuation

Main item	€m
Value of explicit cash flows	608
Terminal value from 2025E	1,044
EV	1,653
Net debt	-436
Equity Value	1,216
NOSH - m	37
Price target	33.0
WACC	9.6%
Terminal growth rate	1.0%
Terminal multiple	11.7
Terminal margin	19%
Terminal capex/sales	4%

Source: Barclays Research estimates, Company data

What's in the price?

We estimate the current share price is discounting a WACC of c. 12.5% with our terminal growth rate or a terminal growth rate of c. -2%.

FIGURE 37

What's in the price?

		WACC					
		7.5%	8.5%	9.5%	10.5%	11.5%	12.5%
G	-1%	32.8	30.1	27.5	25.2	23.0	21.0
	0%	35.5	32.6	29.9	27.4	25.1	23.0
	1%	39.0	35.8	32.9	30.2	27.7	25.3
	2%	43.3	39.8	36.6	33.6	30.9	28.3
	3%	48.9	45.0	41.5	38.1	35.1	32.2

Source: Barclays Research estimates, Company data

We estimate MM trades on 9.1x 2017E EV/EBITDA compared to European challengers on 8.1x but looks attractive on 2018E multiples at 6.6x vs peers on 7.3x.

FIGURE 38

Masmovil: Valuations multiples (x, %)

	2016E	2017E	2018E	2019E	2020E	2021E	2022E
P/E (x)	(234.6)	(14.0)	(712.6)	13.9	12.6	9.6	8.1
EFCF yield (%)	-2.4%	-3.6%	2.7%	9.8%	12.1%	11.6%	14.7%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TSR yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	32.1	9.1	6.6	5.2	4.7	4.3	3.9
EV/OpFCF	(109.0)	(176.7)	24.8	12.5	9.1	9.1	7.3
Unlevered EFCF yield (%)	-0.5%	-0.3%	3.3%	6.3%	8.8%	8.4%	10.7%

Source: Barclays Research estimates, Company data. Priced as of January 16th 2017 close.

FIGURE 39
Peer multiples

			Price	Potential	P/E			EV/EBITDA			EV/OpFCF			EFCF yield (%)		
Company	Rating	Ccy	Price Target	Upside (%)	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Challengers				**24.8**	**22.1**	**15.9**	**12.8**	**8.2**	**7.3**	**6.5**	**16.1**	**12.8**	**10.8**	**5.6**	**6.8**	**9.1**
Masmovil	OW	EUR	33	25.8	NM	NM	NM	9.1	6.6	5.2	NM	24.8	12.5	-3.6	2.7	9.8
Com Hem	OW	SEK	101	13.7	25.6	18.5	12.8	8.7	7.9	7.1	13.8	12.4	11.0	9.1	10.3	11.6
Drillisch	OW	EUR	60	41.8	27.4	18.6	13.6	13.5	10.2	7.8	16.8	11.8	8.9	3.9	5.7	7.4
Freenet	UW	EUR	23	-16.0	11.3	9.7	8.2	9.7	8.4	7.2	11.1	9.4	7.9	8.0	9.4	11.1
Iliad	OW	EUR	230	23.7	24.4	19.6	16.1	7.0	6.2	5.4	25.0	14.5	11.5	1.7	4.6	5.9
Orange Belgium	OW	EUR	27	29.6	21.6	19.5	13.2	4.7	5.0	4.3	10.1	11.6	9.4	6.7	7.2	8.1
TalkTalk	OW	GBp	250	49.2	9.2	7.7	6.3	5.8	5.2	4.5	8.9	7.9	6.8	11.5	13.3	16.0
Tele Columbus	OW	EUR	9.2	15.6	759.4	24.8	15.4	8.7	7.7	6.9	23.5	16.7	13.1	2.8	6.1	9.4
United Internet	EW	EUR	37	-5.4	15.7	13.8	12.4	9.1	8.0	7.0	11.2	9.8	8.7	6.3	6.7	7.1

Source: Barclays Research estimates, Company data. Priced as of January 16th 2017 close.
For full disclosures on each covered company, including details of our company-specific valuation methodology and risks, please refer to *http://publicresearch.barcap.com*.

Estimates

Pro forma

With MM having made a number of acquisitions in the last two years, it is useful to look at the company on a pro-forma basis. We estimate the company 2016 PF revenues are around EUR1.1bn and EBITDA is EUR120m. Net debt is EUR733m.

FIGURE 40

Masmovil: Proforma operating drivers (€m)

	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
ADSL subs	231	354	437	480	478	438	430	481	529
ADSL subs average	163	293	395	458	479	458	434	455	505
% ADSL	85%	75%	65%	55%	45%	35%	30%	30%	30%
Fibre subs	41	118	235	392	584	814	1002	1121	1233
o/w own network	6	20	45	67	108	176	225	270	270
% homes connected	7%	8%	10%	12%	15%	20%	25%	30%	30%
o/w Orange network	35	98	190	325	476	638	777	851	963
o/w Orange network average	18	67	144	258	401	557	708	814	907
Double Play subs	12	22	42	62	81	100	118	135	151
Double Play ARPU	20	20	21	21	22	22	23	23	23
y/y (%)	0%	2%	2%	2%	2%	2%	2%	2%	2%
Convergent subs	250	450	630	810	981	1152	1314	1467	1611
Convergent ARPU	36	37	37	38	39	40	41	41	42
y/y (%)	0%	2%	2%	2%	2%	2%	2%	2%	2%
Broadband + Convergent revenues	71	158	251	343	437	533	629	725	819
y/y (%)	0%	124%	58%	37%	27%	22%	18%	15%	13%
Mobile subs	4293	4293	4293	4293	4293	4293	4293	4293	4293
Gross adds	1202	1116	859	859	859	859	859	859	859
% market share	14%	13%	10%	10%	10%	10%	10%	10%	10%
Churn	28%	26%	20%	20%	20%	20%	20%	20%	20%
Net adds	0	0	0	0	0	0	0	0	0
Mobile only subscribers	4043	3843	3663	3483	3312	3141	2979	2826	2682
Mobile ARPU	15	15	15	15	15	15	15	16	16
y/y (%)	0%	1%	1%	1%	1%	1%	1%	1%	1%
Mobile revenues	722	695	668	642	617	592	567	543	520
y/y (%)	0%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%
Equipment revenues	220	220	220	216	211	207	203	199	195
Wholesale revenues	115	118	120	121	122	124	125	126	127
y/y (%)	2%	2%	2%	1%	1%	1%	1%	1%	1%
Total Revenues	1129	1191	1259	1322	1388	1455	1524	1593	1662

Source: Barclays Research estimates, Company data

We explicitly model the various capex drivers including the co-financed rollout and own build FTTH per the table below.

FIGURE 41

Masmovil: Capex model (€m)

	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
HHs passed with own network (000s)	500.0	700.0	800.0	900.0	1000.0	1000.0	1000.0	1000.0	1000.0
Capex per HH (vertical + horizontal) - EUR	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
Rollout capex	60.0	30.0	15.0	15.0	15.0	0.0	0.0	0.0	0.0
HHs passed with cofinanced rollout (000s)	400.0	800.0	1200.0	1600.0	2000.0	2400.0	2500.0	2500.0	2500.0
Cofinancing rate	50%	50%	50%	50%	50%	50%	50%	50%	50%
Capex per HH (vertical + horizontal) - EUR	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
Cofinanced capex	26.3	30.0	30.0	30.0	30.0	30.0	7.5	0.0	0.0
HHs passed with remedy rollout - 000s	880.0	950.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
Capex per HH - EUR	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0
Remedy rollout capex	2.2	1.9	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Total HH passed (000)	1780.0	2450.0	3000.0	3500.0	4000.0	4400.0	4500.0	4500.0	4500.0
Total HH connected (000s)	89.0	245.0	450.0	560.0	720.0	880.0	900.0	900.0	900.0
Take up rate	5%	10%	15%	16%	18%	20%	20%	20%	20%
Capex per houses connected - EUR	200	200	200	200	200	200	200	200	200
Rollout capex per HH connected	8.3	31.2	41.0	22.0	32.0	32.0	4.0	0.0	0.0
Total FTTH roll-out capex	96.7	93.1	87.4	67.0	77.0	62.0	11.5	0.0	0.0
FTTH per HHs connected in co-financing per mth	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
FTTH Maintenance capex	6.4	1.8	4.5	6.7	9.7	13.2	14.7	15.0	15.0
Other fixed maintenance	1.4	4.8	7.5	10.3	13.1	16.0	18.9	21.7	24.6
% fixed sales	2%	3%	3%	3%	3%	3%	3%	3%	3%
Fixed maintenance capex	7.8	6.6	12.0	17.0	22.8	29.2	33.6	36.7	39.6
Mobile maintenance capex	43.3	41.7	40.1	38.5	37.0	35.5	34.0	32.6	31.2
% mobile sales	12%	12%	12%	12%	12%	12%	12%	12%	12%
Capex	147.8	141.3	139.5	122.6	136.9	126.7	79.1	69.3	70.8
% of sales	13%	12%	11%	9%	10%	9%	5%	4%	4%

Source: Barclays Research estimates, Company data

FIGURE 42

Masmovil: Reported P&L (€m)

P&L statement	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue	**130**	**348**	**1,129**	**1,191**	**1,259**	**1,322**	**1,388**	**1,455**
Opex	-120	-309	-988	-998	-1,019	-1,071	-1,127	-1,182
EBITDA	**11**	**39**	**141**	**193**	**239**	**251**	**261**	**273**
D&A	-10	-32	-156	-156	-153	-150	-145	-143
Others	0	0	0	0	0	0	0	0
EBIT	**0**	**7**	**-15**	**37**	**86**	**101**	**116**	**130**
Net interest	-3	-8	-20	-38	-37	-30	-23	-20
PBT	-2	-1	-35	-1	49	71	93	110
Income tax	1	-1	-2	0	-12	-18	-23	-27
Tax rate (%)	25%	-88%	-5%	25%	25%	25%	25%	25%
Minorities	0	0	0	0	0	0	0	0
Net income	**-2**	**-2**	**-37**	**-1**	**37**	**53**	**70**	**82**
Basic EPS		-0.11	-1.85	-0.04	1.85	2.04	2.68	3.16
Diluted EPS		-0.06	-1.00	-0.02	1.00	1.43	1.88	2.22
Basic shares		20	20	20	20	26	26	26
Diluted shares		37	37	37	37	37	37	37

Source: Barclays Research estimates, Company data

FIGURE 43

Masmovil: Cashflow statement (€m)

Cashflow Statement	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	**11**	**39**	**141**	**193**	**239**	**251**	**261**	**273**
Net interest	-2	-8	-20	-38	-37	-30	-23	-20
NWC	1	7	0	0	0	0	0	0
Cash Tax	2	-0	-2	0	-12	-18	-23	-27
Other	0	0	0	0	0	0	0	0
OCF	**12**	**38**	**119**	**155**	**190**	**203**	**214**	**225**
Intangible capex	-8	-6	0	0	0	0	0	0
Tangible capex	-4	-9	0	0	0	0	0	0
Subsidies, etc	2	0	0	0	0	0	0	0
Net Capex	-10	-50	-148	-141	-139	-123	-137	-127
FCF	2	-13	-29	14	50	81	78	99
Others	-10	-761	0	0	0	0	0	0
Investing CF	**-20**	**-811**	**-148**	**-141**	**-139**	**-123**	**-137**	**-127**
Issuance of shares	0	161	0	0	0	0	0	0
Other equity transctions	0	329	0	0	0	0	0	0
Borrowings	27	8	0	0	0	0	0	0
Other financing	3	-22	0	0	0	0	0	0
Others	-0	20	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0	0
Financing CF	**30**	**496**	**0**	**0**	**0**	**0**	**0**	**0**
Net Debt (converts @ 100%)	**139**	**733**	**767**	**764**	**730**	**507**	**459**	**397**
Net Debt/EBITDA (x)	NM	18.9	5.5	4.0	3.1	2.0	1.8	1.5

Source: Barclays Research estimates, Company data

FIGURE 44

Masmovil: Balance sheet (€m)

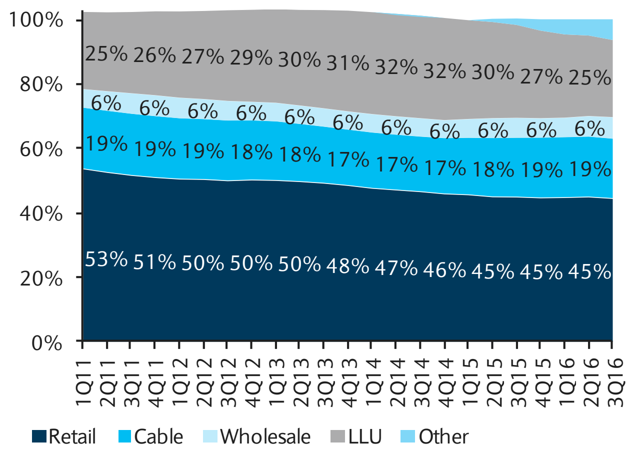
Balance sheet	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Intangible assets	4	5	5	5	5	5	5	5
PPE	1	783	775	760	747	719	711	695
Associates	112	0	0	0	0	0	0	0
Investments	0	112	112	112	112	112	112	112
Deferred tax	4	4	4	4	4	4	4	4
Yoigo assets	0	-160	-160	-160	-160	-160	-160	-160
Pepephone assets	0	9	9	9	9	9	9	9
Total non-current assets	**121**	**753**	**745**	**731**	**717**	**690**	**682**	**665**
Stocks	0	0	0	0	0	0	0	0
Commercial debts	3	4	4	4	4	4	4	4
Associates	0	0	0	0	0	0	0	0
Investments	4	63	63	63	63	63	63	63
Short-term accruals	0	0	0	0	0	0	0	0
Cash	6	-247	-275	-262	-211	-130	-53	46
Total current assets	**13**	**-180**	**-208**	**-194**	**-144**	**-63**	**14**	**113**
Total assets	**134**	**574**	**537**	**536**	**573**	**626**	**696**	**778**
Capital	1	1	1	1	1	1	1	1
Paid-in capital	87	579	579	579	579	579	579	579
Reservations	7	5	5	5	5	5	5	5
Treasury	-1	-3	-3	-3	-3	-3	-3	-3
Other equity instruments	4	4	4	4	4	4	4	4
Capital and reserves	98	586	586	586	586	586	586	586
Other items	1	0	0	0	0	0	0	0
Net profit	-2	2	-35	-36	1	54	124	206
Total equity	**97**	**589**	**552**	**551**	**588**	**641**	**711**	**793**
Long term debts	28	28	28	28	28	28	28	28
Other debt	2	2	2	2	2	2	2	2
Deferred tax liabilities	2	2	2	2	2	2	2	2
Yoigo liabilities	0	0	0	0	0	0	0	0
Pepephone liabilities	0	0	0	0	0	0	0	0
Non-current liabilities	**32**	**31**	**31**	**31**	**31**	**31**	**31**	**31**
Short term debts	2	63	63	63	63	63	63	63
Other debts	1	1	1	1	1	1	1	1
Payables	3	-110	-110	-110	-110	-110	-110	-110
Total current liabilities	**5**	**-46**	**-46**	**-46**	**-46**	**-46**	**-46**	**-46**
Total liabilities and equity	**134**	**574**	**537**	**536**	**573**	**626**	**696**	**778**

Source: Barclays Research estimates, Company data

Spain fixed – in pictures

FIGURE 45

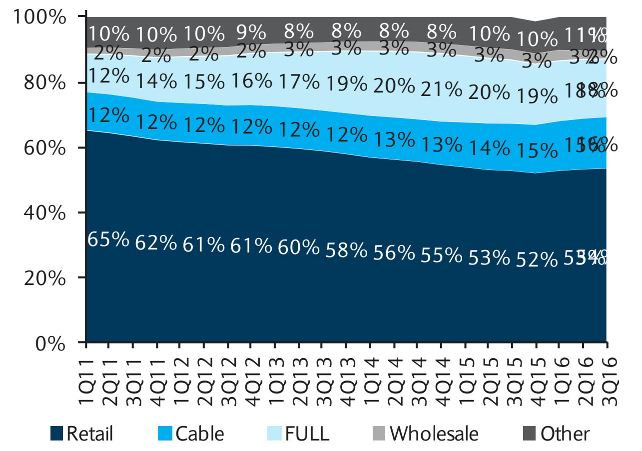
Spain: Broadband market share by technology (%)



Source: Company data, Barclays Research

FIGURE 46

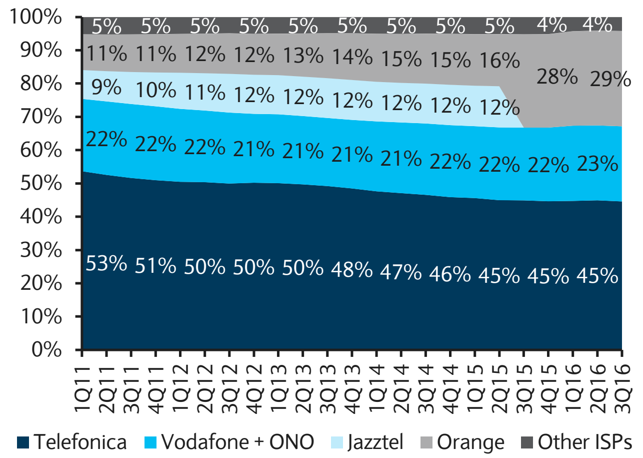
Spain: Voice lines market share by technology (%)



Source: Company data, Barclays Research

FIGURE 47

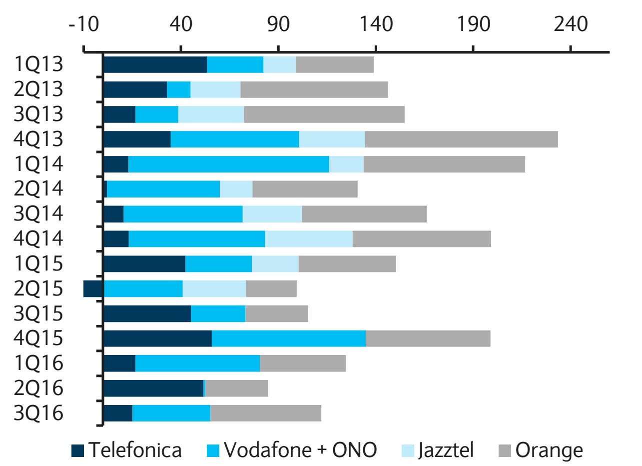
Spain: Broadband market share by operator (%)



Source: Company data, Barclays Research

FIGURE 48

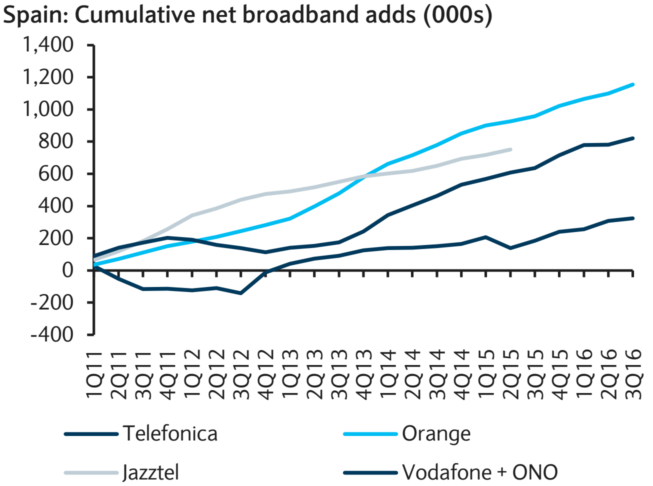
Spain: Broadband Quarterly net adds



Source: Company data, Barclays Research

FIGURE 49

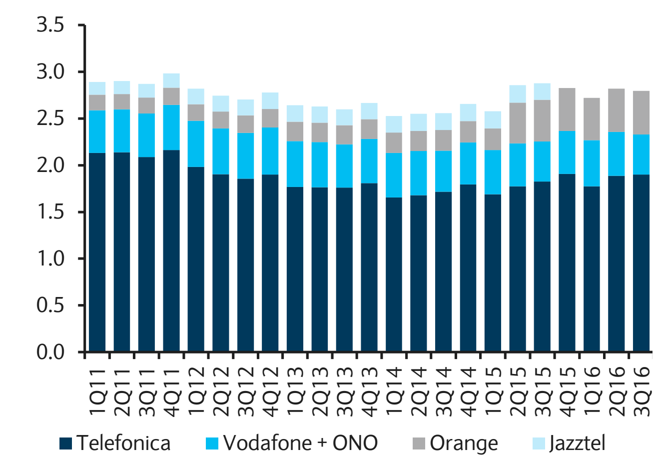
Spain: Cumulative net broadband adds (000s)



Source: Company data, Barclays Research

FIGURE 50

Spain: Total fixed revenues (€bn)



Source: Company data, Barclays Research

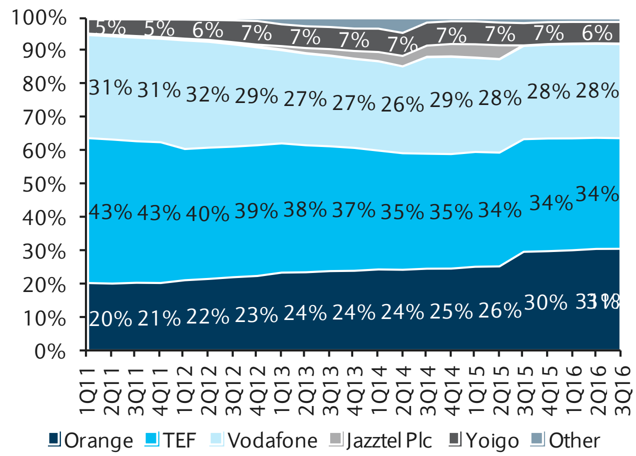
Spain wireless – Slowing down

Trends have improved in Spain with the big three players showing improving underlying trends over the last few quarters as price increases aid service revenue growth. It seems, however, that competition is rising again and the opportunity to raise prices has diminished.

- **Orange, TEF and Vodafone dominate.** Orange, TEF and Vodafone all have roughly equal market shares in terms of subscriber numbers. TEF has 34%, Orange 33% and Vodafone 28%. Orange has substantially increased its market share since 2011, up 13pp from 20%, in part due to the acquisition of Jazztel in mid 2015. TEF's market share has consequently decreased 9pp since 2011 and Vodafone's has decreased 3pp.

FIGURE 51

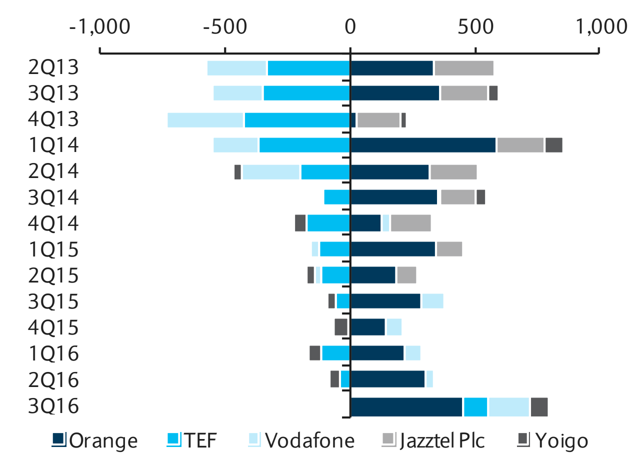
Spain - Subscriber market share (%)



Source: Company data, Barclays Research

FIGURE 52

Spain - Total Subscriber Net adds (000s)

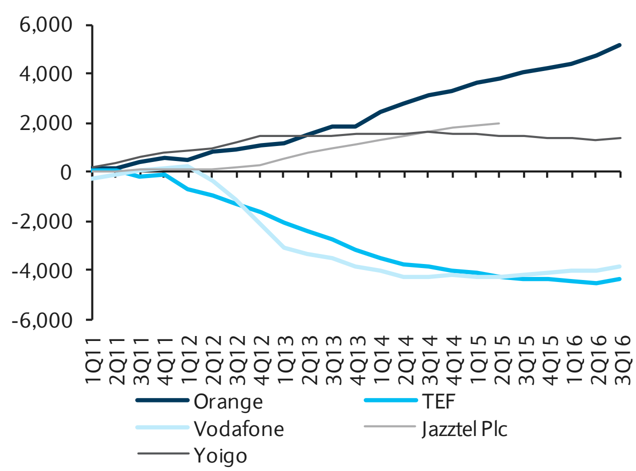


Source: Company data, Barclays Research

- **Orange steadily taking postpaid subscribers.** Orange (including Jazztel) is continuing to take postpaid subscribers at a steady pace. TEF has been posting contract net adds from mid 2014 following quarters of net losses. Vodafone was losing postpaid subscribers but returned to positive adds in 3Q14, including Ono, and has continued this trend.

FIGURE 53

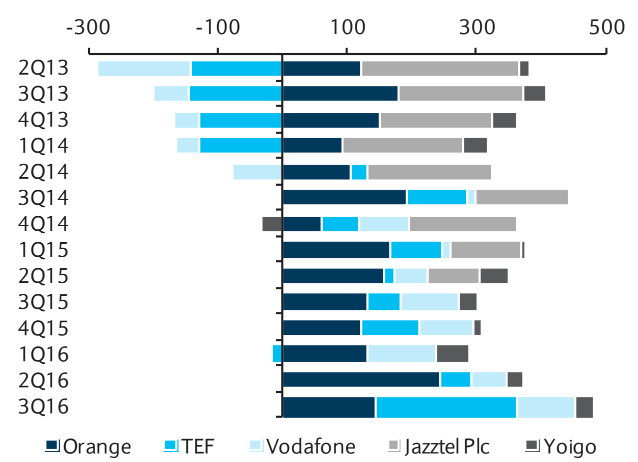
Spain – Cumulative net adds (000s)



Source: Company data, Barclays Research

FIGURE 54

Spain - Contract Net adds (000s)

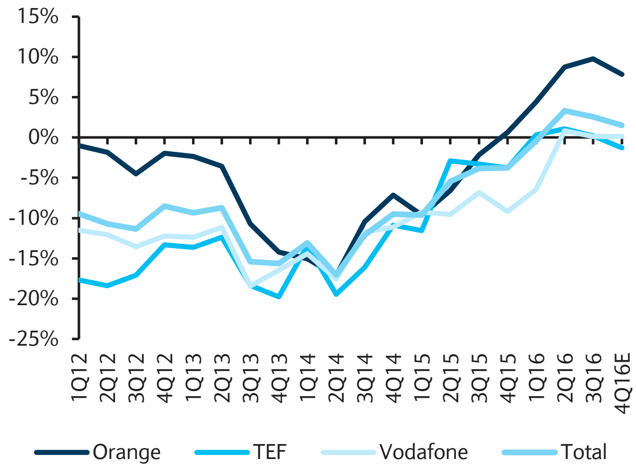


Source: Company data, Barclays Research

- **Service revenue growth continues to improve.** Underlying mobile service revenue growth continues to improve in Spain.

FIGURE 55

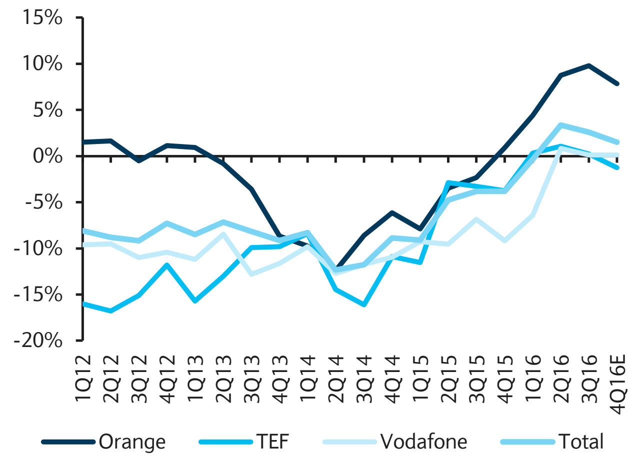
Spain – Mobile Service Revenue Growth (%)



Source: Company data, Barclays Research

FIGURE 56

Spain – Underlying Mobile Service Revenue Growth (%)



Source: Company data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

Masmovil (MASM.MC, 16-Jan-2017, EUR 26.30), Overweight/Positive, CD/J

Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market.

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Com Hem (COMH.ST)	Deutsche Telekom AG (DTEGn.DE)	Drillisch (DRIG.DE)
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Inmarsat plc (ISA.L)	InterXion Holding NV (INXN)	INWIT (INWT.MI)
KCOM (KCOM.L)	KPN (KPN.AS)	Liberty Global (LBTYA)

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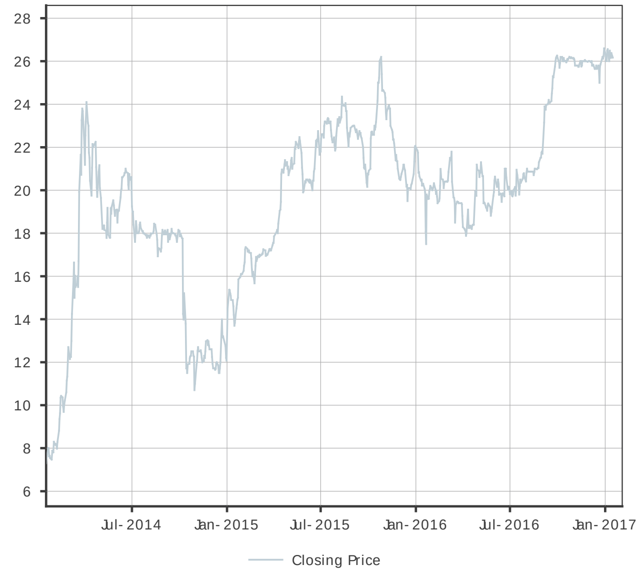
EUR 26.30 (16-Jan-2017)	OVERWEIGHT	POSITIVE

Rating and Price Target Chart - EUR (as of 16-Jan-2017)



Source: IDC, Barclays Research

Currency=EUR

Publication Date	Closing Price	Rating	Adjusted Price Target

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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European Telecom Services (Cont'd)

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