

Masmovil

UPDATE: Mas upside

This note corrects our estimates on page 2 and amends Figure 3 and Figure 7. It replaces 'Masmovil: Mas upside' originally published on 10-May-17 at 04:00 GMT.

Masmovil materially outperformed peers and the market YTD (+70%/+60%). With FY16 results evidencing strong trends, an ambitious yet eminently achievable guidance for 2017E and signs of strong momentum in Q1 17, we believe MAS should continue to deliver. On our updated forecasts MAS trades on 7x EV/EBITDA 2017E (6x in 18E), attractive for the growth on offer (+23% 5Y EBITDA CAGR). We increase our PT to EUR55 (was EUR33) and reiterate our OW rating.

Strong results, positive guidance. MAS delivered strong FY16 results with c. +8% service revenue growth and KPIs ahead of targets. For 2017, MAS expects to add 500k fixed broadband and mobile postpaid customers, which should drive service revenue growth of >+10%. Combined with faster than initially expected synergies, MAS guides for >€200m adjusted EBITDA for 2017E. We raise 17-19e revenues by c. +11% on average and EBITDA 17-19e by c. 40%. We also increase capex by c. +12%.

Organic growth drivers intact. MAS has grown inorganically to become the fourth integrated convergent operator in Spain. As highlighted in *Mas opportunities* (18 January 2017), we see 3 organic drivers to boost growth in future: 1) favorable FTTH/ADSL coverage and access, 2) upsell mobile customers to convergent products, 3) reduced cost base due to lower roaming costs and synergies which should drive a 5Y EBITDA CAGR of +25%.

Risk. The main risk is execution. MAS will need to execute on realizing synergies as well as leveraging its asset base in a competitive and converged Spanish market. We also highlight the high leverage (17E at 3x including converts). The lack of a comparable content strategy could be an issue in future.

MASM.MC: Financial and Valuation Metrics EPS EUR

FY Dec	2015	2016	2017	2018	2019
EPS	N/A	-1.57A	1.05E	2.56E	3.63E
Previous EPS	N/A	-0.06E	-1.00E	-0.02E	N/A
Consensus EPS	N/A	-0.76E	-0.15E	1.71E	2.10E
P/E	N/A	N/A	44.8	18.5	13.0

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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Stock Rating **OVERWEIGHT**
Unchanged

Industry View **POSITIVE**
Unchanged

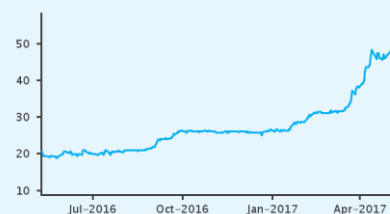
Price Target **EUR 55.00**
raised 67% from EUR 33.00

Price (09-May-2017) EUR 47.25
Potential +16.4%
Upside/Downside
Tickers MAS SM / MASM.MC

Market Cap (EUR mn) 943
Shares Outstanding (mn) 19.95
Free Float (%) 87.19
52 Wk Avg Daily Volume (mn) 0.0
52 Wk Avg Daily Value (EUR mn) N/A
Dividend Yield (%) 1.0
Return on Equity TTM (%) -33.69
Current BVPS (EUR) 12.82

Source: Thomson Reuters

Price Performance Exchange-MCE
52 Week range EUR 48.70-18.70



[Link to Barclays Live for interactive charting](#)

European Telecom Services

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European Telecom Services Industry View: POSITIVE**Masmovil (MASM.MC)****Stock Rating: OVERWEIGHT**

Income statement (€mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	401	1,229	1,325	1,411	52.1%
EBITDA	31	202	272	316	116.0%
EBIT	-41	95	161	199	N/A
Finance costs - net	-21	-48	-48	-39	N/A
Pre-tax income	-61	46	112	160	N/A
Tax rate (%)	5	25	25	25	71.9%
Net income	-58	35	84	120	N/A
EPS (adj) (€)	-1.57	1.05	2.56	3.63	N/A
Diluted shares (mn)	37.0	33.0	33.0	33.0	-3.7%
DPS (€)	0.00	0.00	0.00	0.00	N/A

Price (09-May-2017)

EUR 47.25

Price Target

EUR 55.00

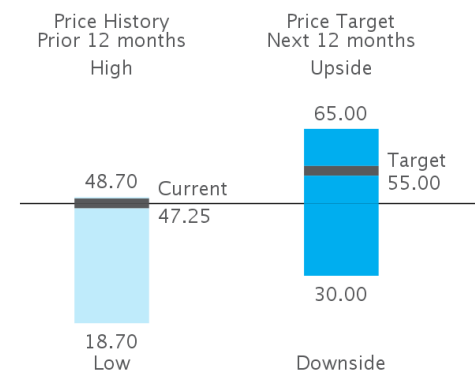
Why Overweight? We believe Masmovil has a significant and unique opportunity to take market share at the value end of the market at favourable economics, in part due to the remedies it received as part of the Orange/Jazztel merger.

Upside case**EUR 65.00**

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

Downside case**EUR 30.00**

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

Upside/Downside scenarios

Margin and return data	Average				
EBITDA margin (%)	7.8	16.5	20.5	22.4	16.8
EBIT margin (%)	-10.1	7.7	12.1	14.1	5.9
Pre-tax margin (%)	-15.2	3.8	8.5	11.3	2.1
Net margin (%)	-14.5	2.8	6.4	8.5	0.8
Operating CF margin (%)	10.1	10.8	14.7	16.8	13.1
ROCE (%)	-30.0	6.0	9.8	11.3	-0.7
RONTA (%)	-5,179.0	17.6	103.3	91.5	-1,241.7
ROA (%)	-28.8	3.8	11.7	9.1	-1.0
ROE (%)	-59.9	13.6	29.0	32.0	3.7

Balance sheet and cash flow (€mn)	CAGR				
Tangible fixed assets	404	117	163	207	-20.0%
Intangible fixed assets	737	737	737	737	0.0%
Cash and equivalents	236	-309	249	325	11.2%
Total assets	1,863	1,030	1,635	1,754	-2.0%
Short and long-term debt	1,169	1,177	1,177	1,177	0.2%
Other long-term liabilities	59	59	59	59	0.0%
Total liabilities	1,607	739	1,260	1,260	-7.8%
Net debt/(funds)	582	620	593	534	-2.8%
Shareholders' equity	256	291	375	495	24.6%
Cash flow from operations	41	132	195	237	80.0%
Capex and acquisitions	-89	-135	-157	-161	N/A
Free cash flow	-54	22	46	65	N/A
NOPAT	-39	71	120	149	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	44.8	18.5	13.0	25.4
Prop. EV/EBITDA	12.9	6.9	5.7	4.7	7.5
Prop. EV/OpFCF	51.2	16.8	13.4	9.6	22.8
Prop. EFCF yield (%)	-5.6	-0.3	4.0	8.0	1.5
P/BV (x)	6.8	5.4	4.2	3.2	4.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	82.1	80.2	75.8	70.4	77.1
Net debt/EBITDA (x)	18.6	3.1	2.2	1.7	6.4

Selected operating metrics (k)	Average				
Broadband subs - Spain	120	390	650	890	513
Total mobile subscribers - Spain	4,290	4,460	4,460	4,460	4,418

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

Positive results, significant growth ahead

Masmovil delivered results ahead of its targets with guidance well ahead of consensus expectations. Broadband subscribers came in at 122k, ahead of its 100k target. Masmovil expects to add 500k fixed broadband and mobile postpaid customers in 2017E, which should drive service revenue growth of +10%. The company guides for >€200m EBITDA for 2017E (Barc: €217m) due to service revenue growth and realization of synergies (mostly coming from migration of customers to its new NRA).

2016 PF service revenues were up +8% and EBITDA was up +16% yoy. The company did not disclose PF H2-15 and H1-16 or H2 -16 figures. We estimate that PF 16 service revenues were +9% ahead of our estimates and EBITDA was -3% below. Net Debt excluding convertibles was EUR336m (EUR402m expected).

FIGURE 1

Masmovil: FY16 results (EURm)

P&L, €m	FY15	FY16	FY16E	Var Barc (€m)	Var Barc (%)
Revenues - PF	1,071	1,121	1,095	26	2.3%
Service revenues - PF	779	838	767	71	9.3%
EBITDA - PF	103	119	122	(3)	-2.5%
Margin (%)	9.6%	10.6%	11.1%		
Capex		101	130	(29)	-22.3%
OpFCF		220	252		-12.7%
Net Debt (excl . converts)		336	402	(66)	-16.4%

Source: Barclays Research estimates, Company.

KPIs were strong with the company ending the year with 4.3m mobile subscribers (in line) and 122k broadband customers (vs 97k expected). We note that in January and February 2017 alone, the Spanish regulator reported that Masmovil had gained 200k mobile subscribers (prepaid and postpaid) and 48k broadband subscribers (i.e. a 44% market share of net adds).

FIGURE 2

Masmovil: KPIs (000s)

	FY15	FY16	FY16E	Var Barc (€m)	Var Barc (%)
Mobile	4,210	4,290	4,293	(3)	-0.1%
Postpaid	2,970	3,340			
Prepaid	1,240	950			
Broadband	36	122	97	25	25.8%
Total RGUs	4,246	4,412	4,390	22	0.5%

Source: Barclays Research estimates, Company.

For 2017, Masmovil is guiding for more than +10% service revenue growth (vs Barclays on c. +4%) and EBITDA growth of c. +70% to more than EUR200m. Reported EBITDA should be lower due to c. EUR26m of negative one-offs, so at c. EUR175m vs Barclays and consensus on c. EUR140m. One key reason for the superior guidance is that the benefits from the new roaming deal should accrue already in 2017, whilst we were expecting it to only impact 2018. Masmovil is also guiding for 500K net adds (post paid mobile+ broadband).

FIGURE 3

Masmovil: FY2017 Guidance vs pre results estimates

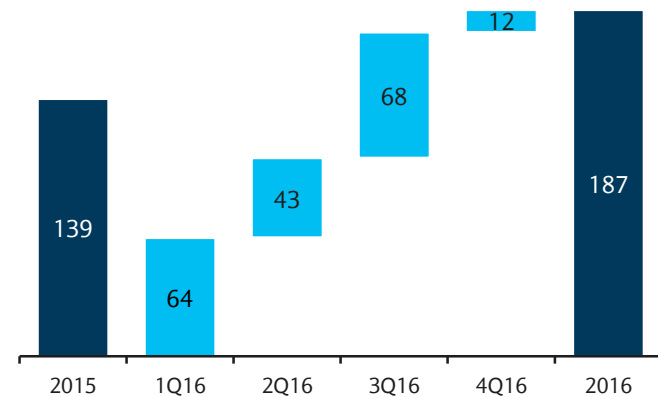
	Company	Barc	Cons
Service revenues - PF yoy %	> +10%	3%	
Recurring EBITDA - EURm	>200m	165	
Reported EBITDA - EURm	>176m	141	144
Postpaid mobile + Broadband	500k		

Source: Barclays Research estimates, Company. Consensus from Bloomberg.

Masmovil continues to take share in the market taking, citing its leadership in mobile net portability. We note Masmovil has taken 40k mobiles subs in January and February in 2017 compared to the market losing -34k per regulator data. In broadband, Masmovil increased its subscriber base by nearly 100k subscribers in 2016 or ca15% of market growth.

FIGURE 4

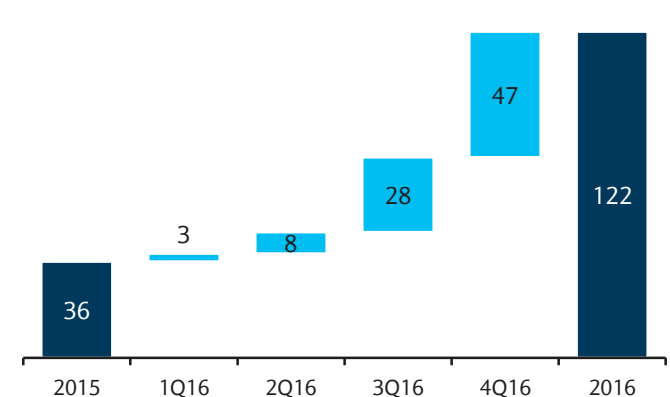
Masmovil: Net portability (000s)



Source: Company data, Barclays Research

FIGURE 5

Masmovil: Broadband subscribers (000s)

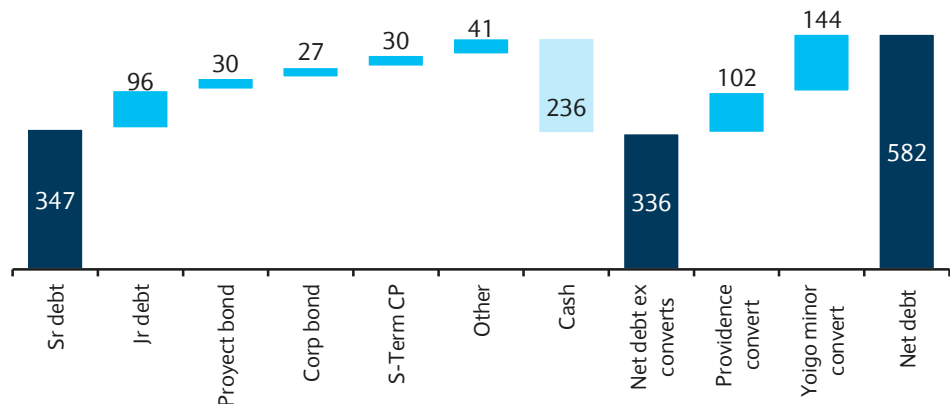


Source: Company data, Barclays Research

At the end of 2016, Masmovil reported net debt excluding converts of EUR336m or 2.8x net debt/EBITDA. Including convertibles, per Masmovil's definition, saw net debt at EUR582m or 4.9x net debt/EBITDA.

FIGURE 6

Masmovil: Net debt progression



Source: Company data, Barclays Research

Conference call feedback

Below we summarise the company conference call post results:

- 2017 EBITDA guidance:
 - EUR60m savings on roaming now for 2017 whilst before that expected that to be done over 18months. For 2018, extra savings as move from TEF to ORA roaming contract so total savings are higher than €60m.
 - SACs: Masmovil doesn't capitalize mobile SAC at all so increase in EBITDA is not due to that.
 - EBITDA guidance is recurring: There will be EUR26m negative one offs.
- 2017 Capex:
 - Capex will be higher than in 2016 as Masmovil co-invests in FTTH and rolls out its own FTTH network.
- Yoigo: Convergent offering of Yoigo has been live for only a couple of months. Offers are working well so far. Very good uptake of Broadband offers in the shops of Yoigo. Churn is actually low compared to others if you look at mobile only. Churn has reduced in Q1 2017.
- Competitive environment: There are always promotions but they are limited. Masmovil is happy about the Q1 performance.
- Masmovil brand: Most is from growth of market, similar at Pepephone. Yoigo is both growth of market and taking from other companies. 40% of churn at Yoigo is due to lack of a 4P offering. This has changed since February.
- Focus is organic growth: Masmovil wants to demonstrate it has a great story organically but is open to M&A if there is a fit in synergies/accretion for shareholders.

Changes in estimates and valuation

We update our estimates post results and for the new company guidance. The company is now guiding for a total combined net increase in broadband and mobile subs of 500k, +10% service revenue growth and recurrent EBITDA of more than €200m.

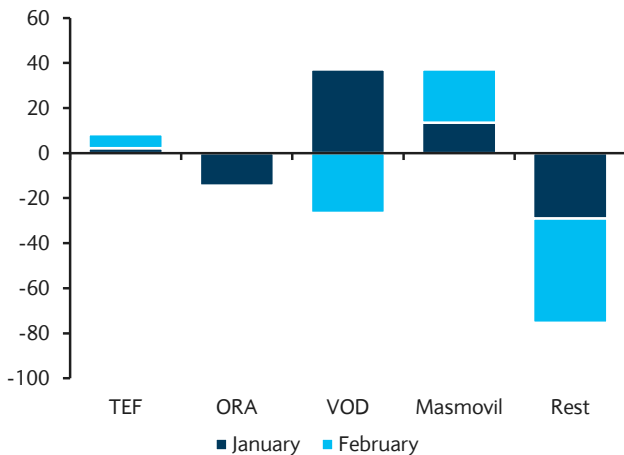
FIGURE 7
Masmovil: Guidance

	2017	Barclays
Subscribers (k)	+500	na
Service revenue growth (%)	>10%	12%
Recurrent EBITDA (EURm)	>200	228

Source: Company data, Barclays Research

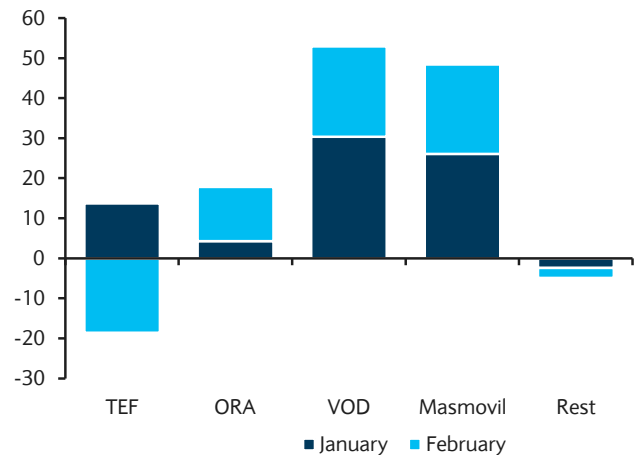
Latest CNMC data is supportive of our estimates. It shows that Masmovil is continuing to take market share in both broadband and mobile in 2017E, with management commenting they were pleased with momentum so far this year, aided by the launch of convergent tariffs on the Yoigo brand and in Yoigo stores. In January and February of 2017, Masmovil has taken ca50% of broadband net adds in the market. This has accelerated through the year as Masmovil took 36% in January and 44% in February as convergent offerings were launched under the Yoigo brand and sold through Yoigo stores. We estimate Masmovil will add +270k broadband subs. It is a similar story in mobile. Masmovil has added 37k subscribers in January and February combined whereas the market has lost -34k subscribers in that time.

FIGURE 8
Spain: Mobile net adds (k)



Source: CNMC, Barclays Research

FIGURE 9
Spain: Broadband net adds (k)



Source: CNMC, Barclays Research

We are inline with guidance for service revenue growth.

FIGURE 10

Masmovil: Changes to estimates (EURm, %)

	New			Old			Change (%)		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Revenue	1,229.1	1,325.2	1,411.0	1,128.5	1,190.8	1,258.6	8.9%	11.3%	12.1%
Broadband revenues	101.7	222.1	343.2	70.8	158.4	250.7	43.5%	40.2%	36.9%
Mobile revenues	837.7	807.7	766.4	722.5	694.9	668.0	16.0%	16.2%	14.7%
Wholesale revenues	114.7	116.9	119.3	115.3	117.6	119.9	-0.5%	-0.5%	-0.5%
Rep. EBITDA	202.2	271.6	315.6	140.6	192.9	239.1	43.8%	40.8%	32.0%
EBIT	94.7	160.6	198.6	(15.3)	37.0	86.1	nm	nm	130.5%
PBT	46.4	112.5	159.7	(35.1)	(1.0)	49.2	nm	nm	224.5%
Net income	34.8	84.4	119.8	(36.8)	(0.7)	36.9	nm	nm	224.5%
Diluted EPS	1.1	2.6	3.6	(1.0)	(0.0)	1.0	nm	nm	263.9%
Capex	162.2	157.2	161.2	147.8	141.3	139.5	9.7%	11.2%	15.6%
Net debt	620.3	592.9	534.0	766.7	763.7	730.0	-19.1%	-22.4%	-26.8%

Source: Company data, Barclays Research

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.

FIGURE 11

Masmovil: Proforma operating drivers (€m)

	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
ADSL subs	332	488	579	611	585	522	501	552	600
ADSL subs average	225	410	533	595	598	553	511	527	576
% ADSL	85%	75%	65%	55%	45%	35%	30%	30%	30%
Fibre subs	59	163	312	500	715	969	1169	1288	1400
o/w own network	6	25	68	112	180	264	315	315	315
% homes connected	7%	10%	15%	20%	25%	30%	35%	35%	35%
o/w Orange network	53	138	244	388	535	705	854	973	1085
o/w Orange network average	27	95	191	316	461	620	779	914	1029
Double Play subs - 000s	90	90	102	113	123	132	141	150	158
Double Play ARPU - EUR	21	21	22	22	23	23	24	24	25
y/y (%)	0%	2%	2%	2%	2%	2%	2%	2%	2%
Convergent subs	300	560	788	997	1178	1358	1529	1691	1843
Convergent ARPU - EUR	38	39	39	40	41	42	43	43	44
y/y (%)	0%	2%	2%	2%	2%	2%	2%	2%	2%
Broadband + Convergent revenues - EURm	102	222	343	458	566	670	776	881	984
y/y (%)	0%	118%	55%	34%	23%	18%	16%	13%	12%
Mobile subs - 000s	4460	4460	4460	4460	4460	4460	4460	4460	4460
Mobile only subscribers	4160	3900	3672	3463	3283	3102	2931	2770	2618
Mobile ARPU	17	17	17	17	17	17	18	18	18
y/y (%)	0%	1%	1%	1%	1%	1%	1%	1%	1%
Mobile revenues - EURm	838	808	766	729	696	666	635	606	579
y/y (%)	0%	-4%	-5%	-5%	-5%	-4%	-5%	-5%	-5%
Service revenues	939	1030	1110	1188	1262	1336	1412	1487	1563
y/y (%)	12%	10%	8%	7%	6%	6%	6%	5%	5%
Equipment revenues - EURm	175	179	182	186	189	193	197	201	205
y/y (%)	3%	2%	2%	2%	2%	2%	2%	2%	2%
Wholesale revenues - EURm	115	117	119	120	122	123	124	125	127
y/y (%)	2%	2%	2%	1%	1%	1%	1%	1%	1%
Total Revenues - EURm	1229	1325	1411	1494	1573	1652	1733	1814	1895
y/y (%)	10%	8%	6%	6%	5%	5%	5%	5%	4%

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 12

Masmovil: Capex model (€m)

Capex modelling	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
HHs passed with own network (000s)	500	700	800	900	1000	1000	1000	1000	1000
Capex per HH (vertical + horizontal) - EUR	150	150	150	150	150	150	150	150	150
Rollout capex - EURm	60	30	15	15	15	0	0	0	0
HHs passed with cofinanced rollout (000s)	400	800	1200	1600	2000	2400	2500	2500	2500
Cofinancing rate	1	1	1	1	1	1	1	1	1
Capex per HH (vertical + horizontal) - EUR	150	150	150	150	150	150	150	150	150
Cofinanced capex - EURm	27	30	30	30	30	30	8	0	0
HHs passed with remedy rollout - 000s	880	950	1000	1000	1000	1000	1000	1000	1000
Capex per HH - EUR	27	27	27	27	27	27	27	27	27
Remedy rollout capex - EURm	2	2	1	0	0	0	0	0	0
Total HH passed (000)	1780	2450	3000	3500	4000	4400	4500	4500	4500
Total HH connected (000s)	89	245	450	560	720	880	900	900	900
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 - EURm	8	31	41	22	32	32	4	0	0
Total FTTH roll-out capex - EURm	98	93	87	67	77	62	12	0	0
FTTH per HHs connected in co-financing	5	5	5	5	5	5	5	5	5
FTTH Maintenance capex - EURm	6	2	5	7	10	13	15	15	15
Other fixed maintenance	2	7	10	14	17	20	23	26	30
% fixed sales	2%	3%	3%	3%	3%	3%	3%	3%	3%
Fixed maintenance capex - EURm	8	8	15	20	27	33	38	41	45
Customer Capex - EURm	2	7	17	18	27	34	20	0	0
% of sales	0%	1%	1%	1%	2%	2%	1%	0%	0%
Mobile capex - EURm	29	28	27	26	24	23	22	21	20
% mobile sales	7%	7%	7%	7%	7%	7%	7%	7%	7%
Other capex - EURm	25	20	15	15	15	15	15	15	15
Capex - EURm	162	157	161	146	170	167	107	78	80
% of sales	13%	12%	11%	10%	11%	10%	6%	4%	4%

Source: Barclays Research estimates, Company data

FIGURE 13

Masmovil: Reported P&L (€m)

P&L statement	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E
Revenue	130	401	1,229	1,325	1,411	1,494	1,573	1,652
Opex	-120	-370	-1,027	-1,054	-1,095	-1,163	-1,225	-1,286
EBITDA (reported)	11	31	202	272	316	331	349	367
D&A	-10	-41	-108	-111	-117	-123	-126	-132
Others	0	-31	0	0	0	0	0	0
EBIT	0	-41	95	161	199	208	223	235
Net interest	-3	-21	-48	-48	-39	-24	-12	-7
PBT	-2	-61	46	112	160	184	211	228
Income tax	1	3	-12	-28	-40	-46	-53	-57
Tax rate (%)	25%	5%	25%	25%	25%	25%	25%	25%
Minorities	0	0	0	0	0	0	0	0
Net income	-2	-58	35	84	120	138	158	171
Basic EPS		-2.90	1.74	4.22	5.99	5.31	6.08	6.57
Diluted EPS		-1.57	1.05	2.56	3.63	4.18	4.79	5.17
Basic shares		20	20	20	20	26	26	26
Diluted shares		37	33	33	33	33	33	33
DPS		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Barclays Research estimates, Company data

FIGURE 14

Masmovil: Cashflow statement (€m)

Cashflow Statement	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA (reported)	11	31	202	272	316	331	349	367
Net interest	-2	-23	-48	-48	-39	-24	-12	-7
NWC	1	26	-10	0	0	0	0	0
Cash Tax	2	6	-12	-28	-40	-46	-53	-57
Other	0	0	0	0	0	0	0	0
OCF	12	41	132	195	237	261	284	302
Intangible capex	-8	-27	0	0	0	0	0	0
Tangible capex	-4	-62	0	0	0	0	0	0
Subsidies, etc	2	0	0	0	0	0	0	0
Net Capex	-10	-89	-135	-157	-161	-146	-170	-167
FCF	2	-48	-3	38	76	115	114	135
Others	-10	-722	-30	0	0	0	0	0
Investing CF	-20	-811	-166	-157	-161	-146	-170	-167
Issuance of shares	0	162	0	0	0	0	0	0
Other equity transactions	0	308	0	0	0	0	0	0
Borrowings	27	8	8	0	0	0	0	0
Other financing	3	-22	0	0	0	0	0	0
Others	-0	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0	0
Financing CF	30	456	8	0	0	0	0	0
Net Debt (incl converts)	139	582	620	593	534	298	214	116
Net Debt/EBITDA (x)	NM	4.9	3.1	2.2	1.7	0.9	0.6	0.3

Source: Barclays Research estimates, Company data

Valuation

We trim our WACC slightly to 9.2% due to solid execution. This combined with higher estimates leads to our higher PT of €55/share (fully diluted).

FIGURE 15

Masmovil: DCF (€)

DCF - EURm	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
EBITDA	202	272	316	331	349	367	379	392	407
minus depreciation	-108	-111	-117	-123	-126	-132	-136	-132	-76
EBIT	95	161	199	208	223	235	243	260	332
Tax	-24	-40	-50	-52	-56	-59	-61	-65	-83
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Nopat	71	120	149	156	167	176	182	195	249
minus capex	-162	-157	-161	-146	-170	-167	-107	-78	-80
plus depreciation	108	111	117	123	126	132	136	132	76
Working capital	-10	0	0	0	0	0	0	0	0
CF for discounting	6	74	105	133	123	141	211	250	245
Discount factor		91.6%	83.9%	76.8%	70.4%	64.5%	59.0%	54.1%	49.5%
Discounted CF		68	88	102	86	91	125	135	121

Source: Barclays research estimates

FIGURE 16

Masmovil: Valuation (€)

Main item	€m
Value of explicit cash flows	816
Terminal value from 2025E	1,482
EV	2,297
Net debt	-478
Equity Value	1,819
NOSH - m	33
Price target	55.0
WACC	9.2%
Terminal growth rate	1.0%
Terminal multiple	12.2
Terminal margin	21%
Terminal capex/sales	4%
Terminal FCF margin	17%

Source: Barclays research estimates

The below is an extract from our report *Mas opportunities* (18 January 2017).

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.

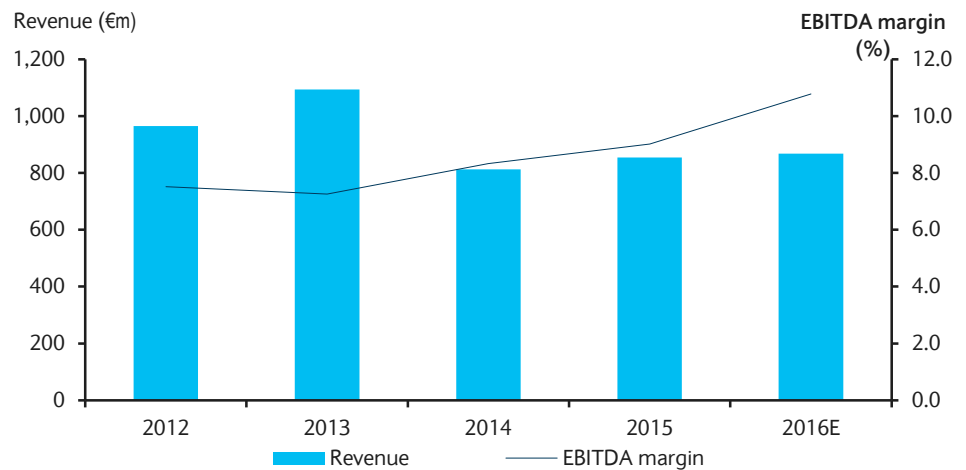
Pepephone acquisition in September 2016

Masmovil completed the acquisition of Pepephone in September 2016. 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 YE17. Although Masmovil's disclosure is somewhat limited, Yoigo was previously owned by the Swedish incumbent TeliaSonera, which reported detailed KPIs.

FIGURE 17

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/Jaztel 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.

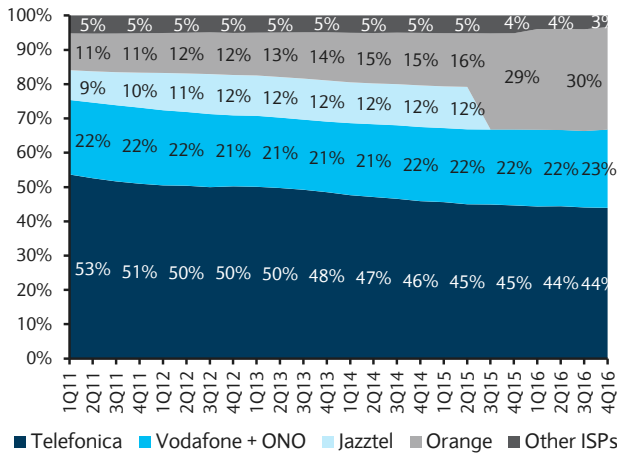
Masmovil after acquisitions

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 122k broadband customers at the end of FY16, surpassing its 100k target.

FIGURE 18

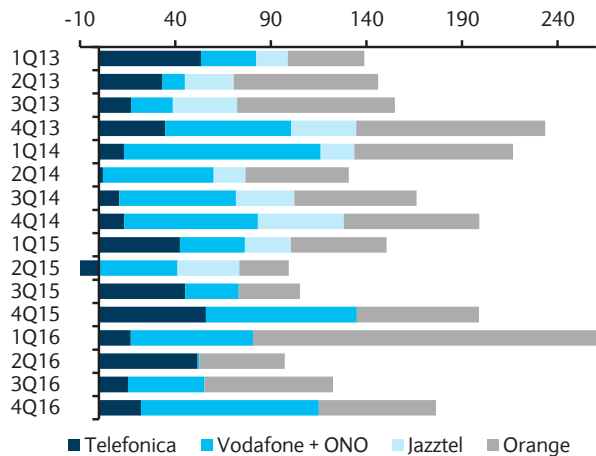
Spain: Fixed Broadband market share



Source: Barclays Research, Company data

FIGURE 19

Spain: Fixed Broadband net adds – 000s



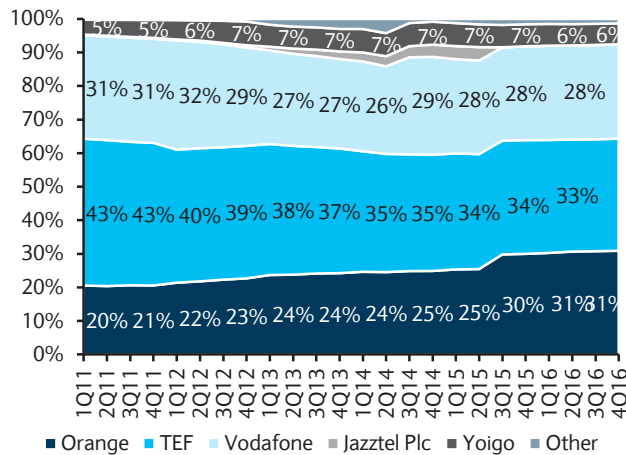
Source: Barclays Research, Company data

Masmovil had 500k mobile 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 4.4m, 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 20

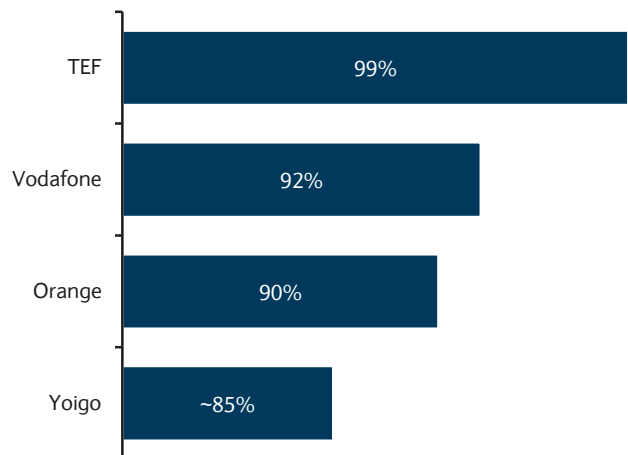
Spain: Mobile subscribers market share



Source: Barclays Research, Company data.

FIGURE 21

Spain: 4Q16 4G coverage (%)*

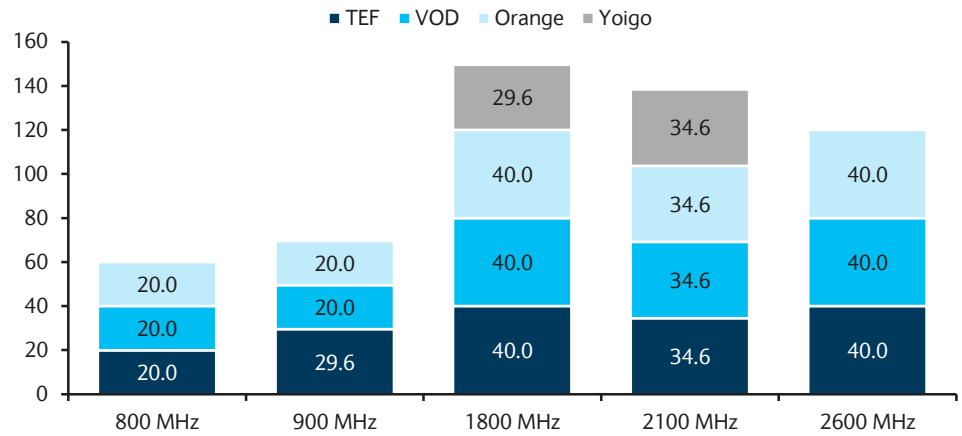


Source: Barclays Research, Company data. *TEF adjusted to same basis as competitors.

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 22
Spain Spectrum Holdings (MHz, 20MHz=2x10MHz)



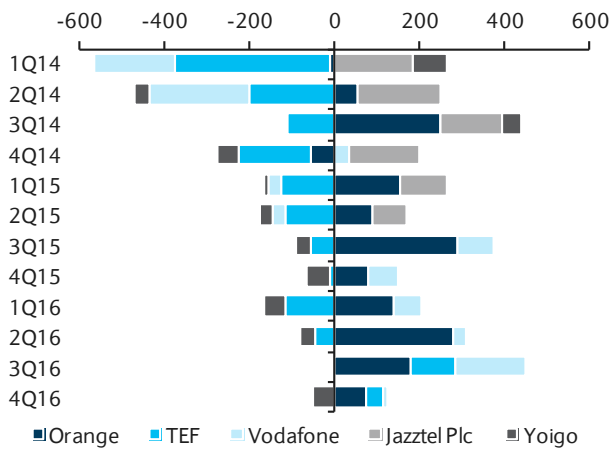
Source: Barclays Research, Company data

Spain Mobile and Fixed

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.

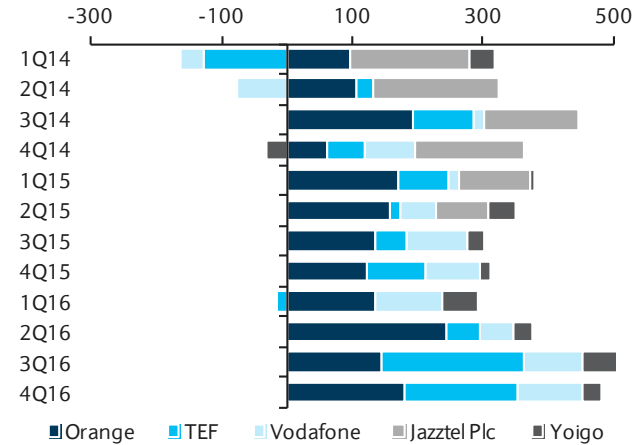
- **Orange, TEF and Vodafone dominate.** Orange, TEF and Vodafone all have roughly equal market shares in terms of subscriber numbers. TEF has 34%, Orange 33% and Vodafone 28%. Orange has substantially increased its market share since 2011, up 13pp from 20%, in part due to the acquisition of Jazztel in mid 2015. TEF's market share has consequently decreased 9pp since 2011 and Vodafone's has decreased 3pp.
- **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 23
Spain - Total Subscriber Net adds (000s)



Source: Company data, Barclays Research

FIGURE 24
Spain - Contract Net adds (000s)

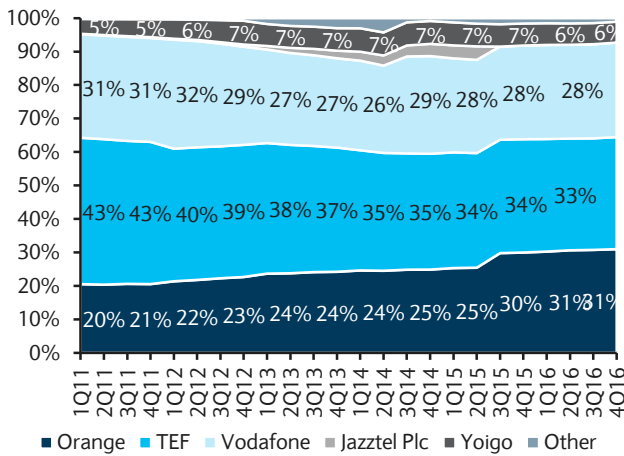


Source: Company data, Barclays Research

- **A stable contract market** - After their restructuring in 1Q12, TEF have continued to take contract subscribers, acquiring 32% share of contract gross additions in 4Q15 whilst also reducing contract churn. Orange and Vodafone follow closely with 28% and 31% respectively. Yoigo continues to be a stable but small competitor with only 9% contract gross share.

FIGURE 25

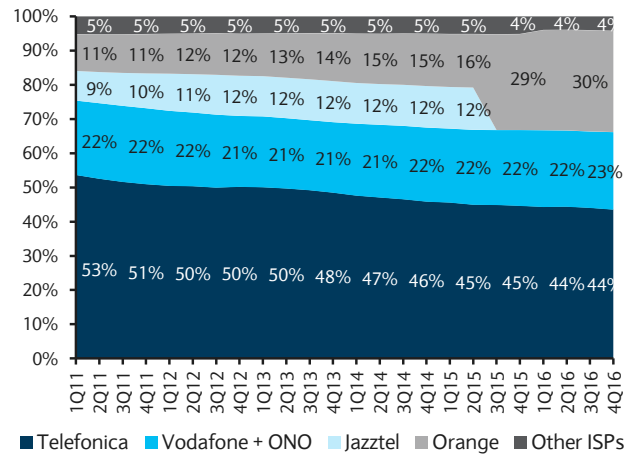
Spain: Total subscriber market share (%)



Source: Company data, Barclays Research

FIGURE 26

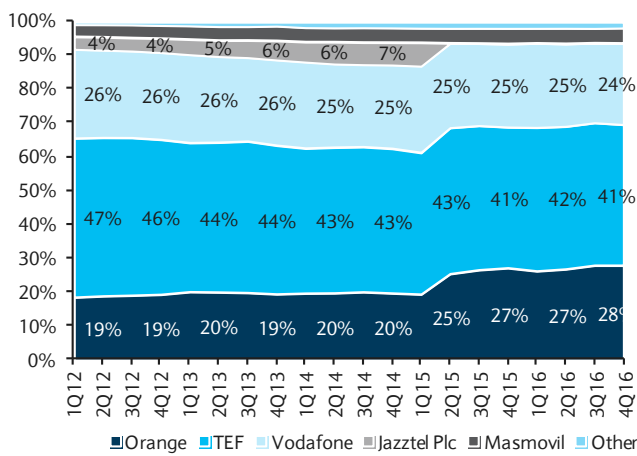
Spain: Broadband market share by operator (%)



Source: Barclays, Company

FIGURE 27

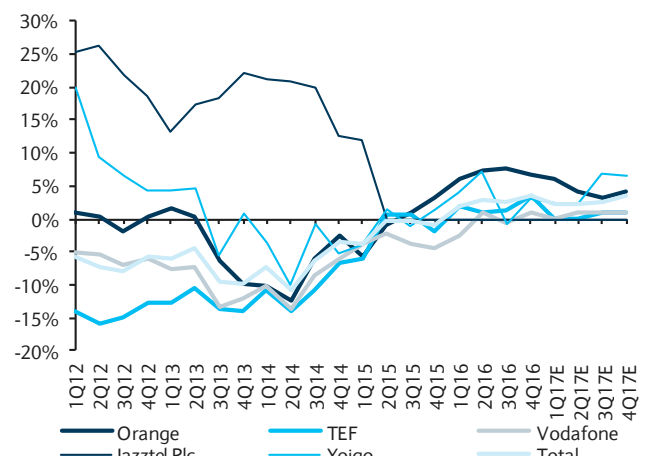
Spain: Consumer service revenue market share (%)



Source: Company data, Barclays Research

FIGURE 28

Spain: Consumer service revenue growth (%)



Source: Company data, Barclays Research

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We, Mathieu Robilliard, Simon Coles and Maurice Patrick, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Masmovil (MASM.MC, 09-May-2017, EUR 47.25), Overweight/Positive, CD/I

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Masmovil (MAS SM / MASM.MC)

EUR 47.25 (09-May-2017)

Stock Rating

OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - EUR (as of 09-May-2017)

Currency=EUR



Publication Date	Closing Price	Rating	Adjusted Price Target
18-Jan-2017	26.51	Overweight	33.00

Source: Thomson Reuters, Barclays Research

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

Source: IDC, Barclays Research

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Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the downside are Masmovil fails to execute on its synergy targets with regards to its roaming agreements and fails to increase its subscriber base as quickly as we currently forecast. Risks to the upside include better synergy realisation and Masmovil takes more market share than we forecast.

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