

Iberia | Telecom Services | Small & Mid Cap | 16-May-2017

MasMovil

Moving up a gear

While MásMóvil shares have doubled YTD, we believe there is more to come. Not only do we think that the early indications of the group's commercial strategy show a much stronger than initially expected success, but the delivery of the synergies also seems well ahead of our expectations. All this is illustrated in the group's 2017E EBITDA guidance: in excess of €200m, which is 50% above our previous expectations. At this stage of the integration process we think the company should be well in control of the operational delivery to assume such a figure, leading us to revise upwards our numbers quite substantially and placing ourselves 9.5% ahead of EBITDA17 guidance, thus driving our FV to increase from €39.7 to €63.4 and we reiterate our BUY recommendation. MásMóvil's story seems to be unfolding in the expected direction, simply at a much faster pace. Therefore we think the thesis we set out in our initiation report of upfront value creation with low execution risk remains totally valid.

Network savings anchored on low-risk contract renegotiations

Much of MásMóvil's success comes through contract renegotiations and the ability to put them into place and thus we think MM's valuation potential is of a low-risk nature. The contract renegotiations for mobile roaming traffic were essential for this and not only did MM secure a very attractive deal with Orange (€40m expected annual savings), but the company was able to negotiate a revision on its current contract with Telefónica, whose terms we think should be similar to what was negotiated with Orange. Therefore while this should provide much more flexibility to MM in the migration process, more importantly it should achieve the run rate of these savings much faster, which is the key element behind the group's expectation of reaching €60m in savings from network partners in 2017E, a crucial element in its EBITDA guidance.

Commercial momentum stronger than expected

Already in 2016 MM showed very good momentum in terms of broadband net adds following the launch of its convergent offer. However we think 2017E is set to be a year where growth will largely exceed initial expectations as the launch of Yoigo's convergent offer in February should mean a major boost to KPIs. February figures released by the regulator seem to indicate this as broadband net adds in January and February have already exceeded the whole figure for 4Q16 and we think momentum should improve going forward. This leads us to increase our overall number of broadband customers by 103% and 49% for 2017E/18E.

Churn decrease another lever to boost EBITDA performance

The other important aspect from this faster than expected commercial success in broadband is the correspondent drop in churn. As the company pointed out on the FY16 results conference call, 40% of Yoigo's churn is triggered by the absence of a convergent offer, meaning that with the recent commercial launch we think MM will be able to reduce its customer acquisition/retention costs substantially, therefore representing an additional lever to increase EBITDA generation in the coming quarters. Under our calculations, by 2020E Yoigo churn should have dropped 8 p.p. corresponding to an annual EBITDA uplift of roughly €22m and yielding a total NPV on synergies of €222m.

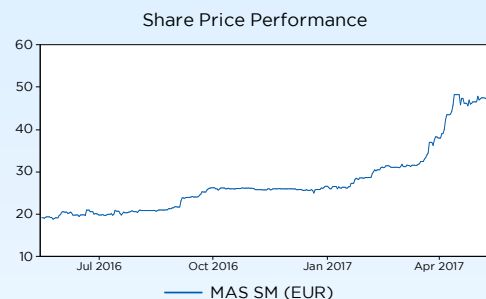
BUY	17% upside
Fair Value	€63.40
Bloomberg ticker	MAS SM
Share Price	€54.30
Market Capitalisation	€1,083.34m
Free Float	40%

EUR m Y/E 31-Dec	2016A	2017E	2018E	2019E
Revenue	1,120.5	1,208.8	1,335.6	1,439.3
Recurrent EBITDA	118.9	218.9	277.1	311.7
EBIT	-18.3	62.6	148.9	189.3
Pre Tax Profit	-44.5	19.1	108.8	156.3
Net Income	-39.7	13.7	78.3	117.3
FCFF	11.8	3.1	100.3	135.8
Net Financial Debt	705.4	745.8	685.7	582.9

2016 numbers are proforma, with 12M consolidation of assets bought in 2016

Y/E 31-Dec	2016A	2017E	2018E	2019E
EV / Revenue	1.6	1.5	1.3	1.2
EV / EBITDA	20.3	9.5	6.4	5.3
EV / (EBITDA - capex)	(145.4)	77.2	15.1	9.9
P/E	(27.3)	78.8	13.8	9.2
FCF Yield	0.7%	0.2%	5.7%	8.1%
Dividend Yield	0.0%	0.0%	0.0%	0.0%

2016 numbers are proforma, with 12M consolidation of assets bought in 2016



Source: Haitong Research, Company Data, Bloomberg

Analysts

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Figure 1 Summary of financial information

MasMovil

Recommendation: **BUY**
Fair Value: **€ 63.40**

Share Price: € 54.30
Upside / Downside: 17%
Previous Fair Value: € 39.10
% change to fair value: 62.1%

Shares In Issue (Less Treasury): 20
Market Cap (EUR m): **1,083**
Net Debt FY17E (EUR m): 746
Adjustments For Associates & Minorities: 0
Enterprise Value (EUR m): **1,829**

Forthcoming Catalysts

1Q17 Results: TBC

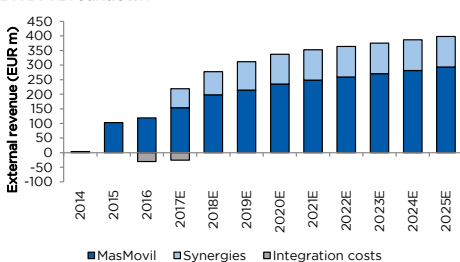
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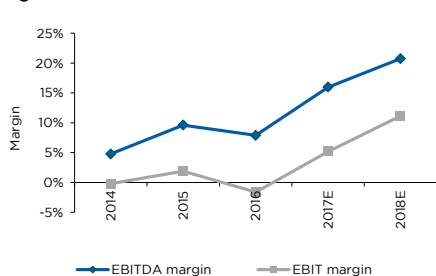
Revenue Breakdown



EBITDA Breakdown



Margin Trends



Valuation Metrics	2016	2017E	2018E	2019E	2020E
EV / Revenue	1.6	1.5	1.3	1.2	1.0
EV / EBITDA	20.3	9.5	6.4	5.3	4.5
EV / (EBITDA - capex)	-145.4	77.2	15.1	9.9	7.1
EV / (Norm Op FCF)	-145.4	77.2	15.1	9.9	7.1
P/E	-27.3	78.8	13.8	9.2	7.4
FCF Yield	0.7%	0.2%	5.7%	8.1%	11.2%
FCFE Yield	-1.0%	-3.7%	5.6%	9.5%	13.4%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Key ratios	2016	2017E	2018E	2019E	2020E
Recurrent EBITDA margin	10.6%	18.1%	20.7%	21.7%	22.2%
EBIT margin	-1.6%	5.2%	11.1%	13.2%	14.4%
Capex / Revenue	9.0%	14.0%	12.0%	10.0%	8.0%
Capex / Depreciation	0.94	1.30	1.25	1.18	1.03
Net Debt / EBITDA	2.7	3.4	2.5	1.9	1.3
EBITDA / Net Interest	4.5	5.0	6.9	9.4	13.5
ROE	-16%	5%	23%	25%	24%

P&L Summary (EUR m)	2016	2017E	2018E	2019E	2020E
Revenue	1,121	1,209	1,336	1,439	1,518
% change	n.m.	7.9%	10.5%	7.8%	5.5%
Reported EBITDA	88	193	277	312	337
% margin	7.9%	16.0%	20.7%	21.7%	22.2%
One-offs	-30.6	-26.0	0.0	0.0	0.0
Recurrent EBITDA	119	219	277	312	337
% change	n.m.	84.1%	26.6%	12.5%	8.1%
% margin	10.6%	18.1%	20.7%	21.7%	22.2%
Depreciation & Amortisation	-107	-130	-128	-122	-118
EBIT	-18	63	149	189	219
% change	n.m.	n.m.	137.7%	27.1%	15.7%
% margin	-1.6%	5.2%	11.1%	13.2%	14.4%
Net Financials	-26.2	-43.5	-40.1	-33.0	-25.0
Pre Tax Profit	-45	19	109	156	194
Income Tax Expense	4.8	-5.3	-30.5	-39.1	-48.5
Discontinued Operations	0	0	0	0	0
Minority Interests	0	0	0	0	0
Net Income	-39.7	13.7	78.3	117.3	145.6
Recurrent Net Income	-12.4	32.5	78.3	117.3	145.6
Reported EPS (EUR)	-1.99	0.69	3.93	5.88	7.30
Recurrent EPS (EUR)	-0.62	1.63	3.93	5.88	7.30
DPS (EUR)	0.00	0.00	0.00	0.00	0.00
Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Shares In Issue (Less Treasury m)	20.0	20.0	20.0	20.0	20.0

Cash Flow (EUR m)	2016	2017E	2018E	2019E	2020E
EBITDA	119	219	277	312	337
Taxes Paid	0	-5	-30	-39	-49
Interest Paid / Received	-23	-44	-40	-33	-25
Change in Working Capital	-7	-15	14	7	3
Associate & Minority Dividends	0	0	0	0	0
Other Operating Cash Flow	0	0	0	0	0
Operating cash flow	90	155	220	247	266
CAPEX	-101	-169	-160	-144	-121
Cash flow from operations	-11	-14	60	103	145
Acquisitions & Disposals	-790	0	0	0	0
Dividends Paid To Shareholders	0	0	0	0	0
Equity Raised / Bought Back	160	0	0	0	0
Other Financing Cash Flow	630	-26	0	0	0
Net Cash Flow	-11	-40	60	103	145

Balance Sheet (EUR m)	2016	2017E	2018E	2019E	2020E
Cash & Equivalents	236	196	256	359	503
Tangible Fixed Assets	404	439	468	487	490
Goodwill & Intangibles	738	741	745	747	747
Associates & Financial Investments	49	49	49	49	49
Other Assets	437	466	487	506	520
Total Assets	1,863	1,891	2,004	2,147	2,310
Interest Bearing Debt	942	942	942	942	942
Other Liabilities	666	680	714	740	757
Total Liabilities	1,607	1,621	1,656	1,682	1,699
Shareholders' Equity	256	269	348	465	611
Minority Interests	0	0	0	0	0
Total Equity	256	458	536	651	802
Net Financial Debt	705	746	686	583	438

Source: Haitong Research for estimates, Bloomberg, Company Data



Valuation

Figure 2 MásMóvil SoP

	FV (Eur m)	% EV	EV/EBITDA			EV/Op FCF			Method	WACC	G rate
			2017E	2018E	2019E	2017E	2018E	2019E			
MásMóvil	1,176	56%	7.6	5.9	5.5	-77.7	31.2	16.6	DCF	8.5%	2.0%
Synergies	921	44%							DCF	8.5%	2.0%
Enterprise Value	2,096	100%	10.9	7.6	6.7	88.4	17.9	12.5			
Net Debt (YE17E)	-746										
Other adjustments	-85										
Equity value	1,265	63.4									
Dividends to be paid through year	-	-									
Fair value inc dividends pending	63.4	63.4									
Upside to fair value		17%									

Source: Haitong Research for estimates, Company Data

Our valuation for MásMóvil has increased on the back of updating our estimates. The faster than expected integration of the assets bought in 2016, together with the very good commercial traction seen in early stages of this year, lead us to our more optimistic assumptions. This not only leads to a higher underlying valuation for the asset, but also a more optimistic NPV for the synergies (€762m to €921m).

We also highlight that previously we were valuing the three different assets from the group, MásMóvil, Pepephone and Yoigo, separately. The company is only providing financial figures for the group as a whole, not detailing the contribution of each asset. As such we now value the three assets combined (MásMóvil) and separately we also present the NPV of the synergies resulting from the integration of these companies.

We are using a YE17E Net Debt estimate that includes all the amounts related to convertible debt, namely the convertible debt held by Providence and also the second component held by Yoigo's previous shareholders.

Finally we take into consideration the potential earn out clause from Yoigo's acquisition (€93m) which corresponds to a NPV of a total €85m earn out clause weighted by our 2019E EBITDA estimate which will ultimately define the earn out amount.



Relative valuation

Figure 3 Multiple comparison

Company	Rating	Currency	Share Price	Fair Value	%age Upside	CAGR 2016-19E		EV / EBITDA			EV / Normalised Op cash flow			
						Revenue	EBITDA	2017E	2018E	2019E	2017E	2018E	2019E	
Belgacom	Not Rated	EUR	30.55	Not Rated	n.a.	0.1%	1.8%	6.6	6.4	6.3	14.7	13.9	13.5	
BT Group	Not Rated	GBP	3.04	Not Rated	n.a.	8.7%	5.3%	5.2	5.2	5.1	9.2	9.4	9.6	
Deutsche Telekom	Not Rated	EUR	17.48	Not Rated	n.a.	3.4%	4.5%	5.9	5.6	5.3	13.3	11.0	10.1	
Elisa	Not Rated	EUR	33.73	Not Rated	n.a.	3.4%	4.6%	10.8	10.4	10.0	17.4	15.9	15.2	
Hellenic Telecom	Not Rated	EUR	9.92	Not Rated	n.a.	0.4%	1.0%	4.0	3.7	3.4	8.6	7.1	6.0	
Iliad	Not Rated	EUR	235.2	Not Rated	n.a.	6.4%	9.5%	8.6	8.0	7.2	65.9	42.5	19.6	
KPN	Not Rated	EUR	2.92	Not Rated	n.a.	-1.1%	1.1%	8.0	7.8	7.5	15.3	14.3	13.2	
MásMóvil	BUY	EUR	54.30	63.40	17%	8.7%	52.3%	9.5	6.4	5.3	77.2	15.1	9.9	
NOS	BUY	EUR	5.5	7.6	38%	4.1%	4.7%	6.3	5.7	5.2	17.3	12.5	10.8	
SFR-Numericable	Not Rated	EUR	32.1	Not Rated	n.a.	1.2%	3.1%	8.1	7.0	6.6	22.7	14.5	12.7	
Orange	Not Rated	EUR	15.27	Not Rated	n.a.	1.0%	1.8%	5.1	5.0	4.9	11.4	11.2	10.0	
Swisscom	Not Rated	CHF	457	Not Rated	n.a.	-0.3%	-0.9%	7.6	7.6	7.6	17.6	17.4	17.4	
Talk Talk	Not Rated	GBP	1.71	Not Rated	n.a.	0.1%	9.8%	7.7	7.3	6.8	14.3	12.2	11.0	
TDC	Not Rated	DKK	37.12	Not Rated	n.a.	-0.7%	-0.7%	6.3	6.1	5.9	12.5	11.6	11.3	
Tele2	Not Rated	SEK	89.40	Not Rated	n.a.	6.0%	14.8%	8.9	7.8	7.1	23.9	16.8	13.3	
Telecom Italia	Not Rated	EUR	0.90	Not Rated	n.a.	1.7%	3.2%	5.1	4.9	4.6	14.3	10.1	8.5	
Telefonica	NEUTRAL	EUR	10.08	9.10	-9.7%	3.5%	8.0%	5.1	4.6	4.2	9.8	8.7	7.8	
Telekom Austria	Not Rated	EUR	6.77	Not Rated	n.a.	1.1%	1.4%	5.1	4.8	4.5	11.2	10.8	9.4	
Telenor	Not Rated	NOK	134.40	Not Rated	n.a.	-0.3%	1.9%	5.5	5.5	5.3	10.3	11.6	9.9	
TeliaSonera	Not Rated	SEK	38.41	Not Rated	n.a.	-1.5%	0.4%	8.7	8.6	8.6	20.7	18.3	17.1	
Vodafone	Not Rated	GBP	2.11	Not Rated	n.a.	1.0%	2.5%	5.8	5.7	5.5	13.5	12.0	11.3	
Average						16.8%	1.0%	2.5%	6.3	6.1	5.5	14.3	12.2	11.0

Company	Rating	Net Debt/EBITDA			Firm FCF yield			Dividend yield			P/E		
		2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Belgacom	Not Rated	1.1	1.1	1.0	4.1%	4.5%	4.6%	4.9%	4.9%	4.9%	16.5	16.2	16.7
BT Group	Not Rated	1.2	1.2	1.2	6.6%	5.5%	6.5%	5.0%	5.5%	6.0%	10.7	10.5	10.1
Deutsche Telekom	Not Rated	2.3	2.1	2.0	2.1%	4.6%	5.1%	3.7%	4.1%	4.2%	20.4	17.3	15.7
Elisa	Not Rated	1.9	1.7	1.6	4.5%	4.7%	5.1%	4.7%	5.0%	5.1%	18.6	17.8	17.2
Hellenic Telecom	Not Rated	0.3	0.0	-0.2	5.5%	9.0%	11.0%	2.0%	2.6%	3.5%	19.0	16.3	14.5
Iliad	Not Rated	1.1	1.1	0.9	-0.7%	0.0%	2.1%	0.2%	0.3%	0.3%	30.5	26.4	22.9
KPN	Not Rated	2.8	2.7	2.5	4.4%	5.0%	6.0%	4.4%	4.9%	5.3%	26.7	23.6	21.2
MásMóvil	BUY	3.4	2.5	1.9	0.2%	5.7%	8.1%	0.0%	0.0%	0.0%	78.8	13.8	9.2
NOS	BUY	1.8	1.7	1.7	4.9%	6.3%	7.2%	6.9%	8.4%	9.7%	21.9	17.8	15.5
SFR-Numericable	Not Rated	4.2	3.6	3.2	1.4%	3.7%	4.5%	1.4%	4.7%	5.3%	43.4	19.6	15.8
Orange	Not Rated	1.9	1.9	1.9	4.1%	4.5%	5.3%	4.3%	4.6%	4.8%	14.7	13.6	12.8
Swisscom	Not Rated	1.9	1.9	1.9	3.9%	3.9%	4.1%	4.8%	4.8%	4.7%	16.1	16.3	16.5
Talk Talk	Not Rated	2.5	2.3	2.1	5.1%	6.5%	7.8%	9.3%	7.3%	7.4%	13.1	12.4	11.1
TDC	Not Rated	2.7	2.6	2.4	4.6%	5.2%	5.4%	2.9%	3.2%	3.5%	13.1	12.1	11.6
Tele2	Not Rated	2.0	1.7	1.5	3.0%	4.0%	5.3%	4.6%	4.7%	5.0%	27.0	19.7	15.4
Telecom Italia	Not Rated	3.0	2.8	2.5	2.3%	4.8%	7.0%	0.0%	0.4%	1.2%	12.2	11.1	10.1
Telefonica	NEUTRAL	2.6	2.4	2.2	8.1%	8.1%	7.8%	4.0%	4.0%	4.0%	11.0	8.3	9.0
Telekom Austria	Not Rated	1.8	1.6	1.3	6.2%	6.4%	7.4%	2.8%	2.9%	3.3%	14.9	14.1	13.1
Telenor	Not Rated	1.2	1.3	1.2	5.4%	4.2%	5.8%	6.0%	6.2%	6.3%	13.5	12.3	11.8
TeliaSonera	Not Rated	2.2	2.2	2.2	3.6%	4.8%	5.1%	5.4%	5.4%	5.6%	13.0	12.3	11.6
Vodafone	Not Rated	2.5	2.4	2.3	4.6%	7.1%	6.3%	7.0%	7.0%	7.0%	30.2	24.1	18.5
Average		2.0	1.9	1.9	4.3%	4.8%	5.6%	4.4%	4.7%	4.9%	16.3	16.2	14.9

Source: Haitong Research for Mas Movil estimates, Company Data and Bloomberg consensus estimates for non rated stocks



New estimates

Figure 4 Haitong new vs old estimates (Eur m)

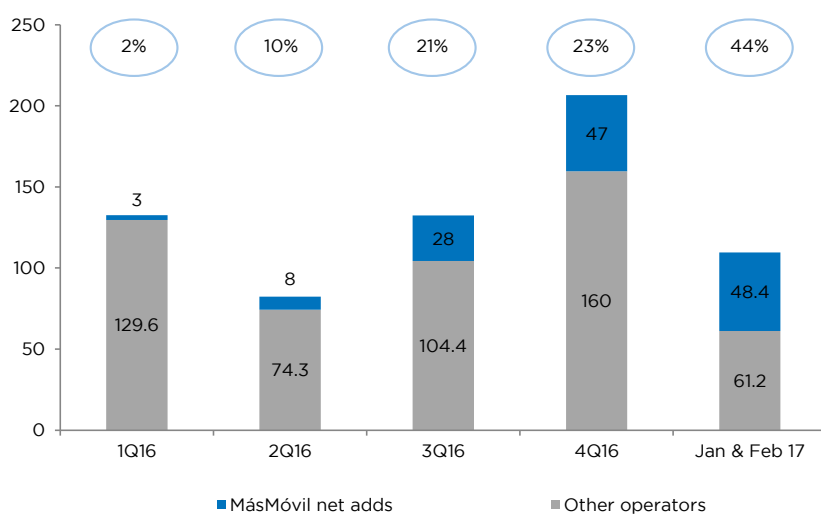
	2017E			2018E			2019E			2020E		
	New	old	% dif	New	old	% dif	New	old	% dif	New	old	% dif
Revenues	1208.8	1137.1	6%	1335.6	1,209	10%	1,439	1,269	13%	1,518	1,305	16%
Mobile subs	4.54	4.35	4%	4.84	4.64	4%	4.94	4.85	2%	5.04	4.97	1%
Broadband subs	0.4	0.20	103%	0.56	0.38	49%	0.68	0.49	39%	0.76	0.56	36%
Recurrent EBITDA	218.9	133.4	64%	277.1	180.7	53%	311.7	243.4	28%	336.9	261.4	29%
mg	18.1%	12%	6.4 pp	20.7%	14.9%	5.8 pp	21.7%	19.2%	2.5 pp	22.2%	20.0%	2.2 pp
- Synergies	64.8	32.4	100.3%	79.1	45.1	75%	97.1	64.3	50.9%	101.7	74.0	37.5%
- Integration costs	-26	-35	-25.7%	0	-25.0	n.m.	0.0	0.0	n.m.	0.0	0.0	n.m.
Depreciation	-130.3	-99.8	31%	-128.2	-104.1	23%	-122.3	-126.6	-3%	-117.8	-99.9	18%
EBIT	66.0	33.5	97%	152.1	76.6	98%	195.1	116.8	67%	222.2	161.6	37.5%
Financial Results	-43.5	-47.8	-9.0%	-40.1	-49.1	-18%	-33.0	-47.7	-31%	-25.0	-43.7	-43%
Net Profit	13.7	-14.3	n.m.	78.3	20.6	280%	117.3	51.7	127%	145.6	88.1	65%
CAPEX	169.2	135.8	24.6%	160.3	135.6	18.2%	143.9	152.6	-5.7%	121.4	121.4	0%
FCFF	3.1	-13.9	n.m.	100.3	32.3	211%	135.8	68.4	98%	169.8	107.4	58%
FCFE	-40.4	-42.0	n.m.	60.2	3.4	n.m.	102.8	40.5	154%	144.8	81.7	77%
Net Debt	745.8	763.3	-2%	685.7	759.8	-10%	582.9	719.4	-19%	438.1	637.6	-31%
Net Debt/EBITDA (x)	3.4	5.7	-40%	2.5	4.2	-41.0%	1.9	3.0	-37%	1.4	2.4	-47%

Source: Haitong Research for estimates

Revenue outlook

Our revenue estimates are increased materially on the back of a forecast higher number of customers. As we have pointed out, early indications post the launch of the group's convergent offers show very good commercial traction from MM.

Figure 5 Broadband market net adds (000)



Source: Company Data and CNMC

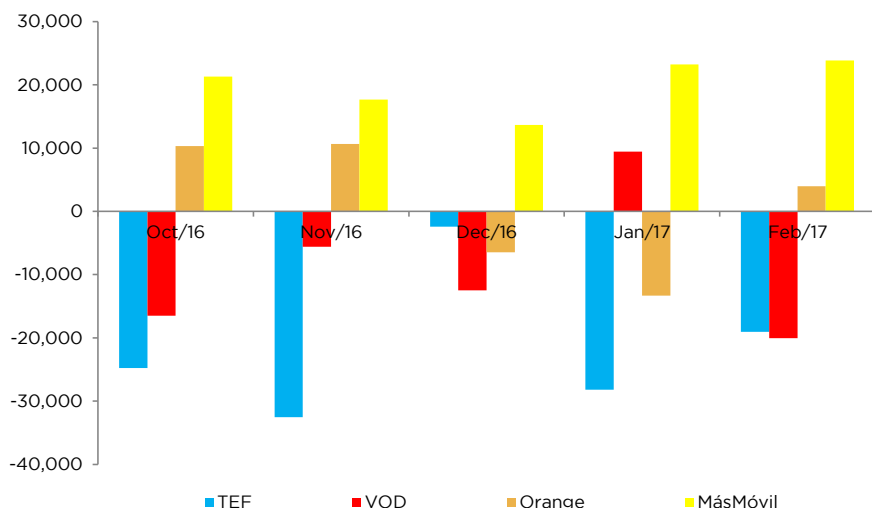
The development showed in Figure 5 on the Spanish broadband market is illustrative of the progress being made by the company. In 1Q16 MásMóvil group was responsible for a mere 2% of the overall market net adds while in



Jan/Feb 17 this percentage rose to 44% for an operator that at YE16 had a market share of the broadband market of 0.9%, which we think underlines the appetite for the group's convergent offer.

This success can also be seen in the mobile segment, namely through the net portability numbers of the Spanish market.

Figure 6 Mobile portability requests



Source: Haitong Research, Company Data

Clearly MM has been capturing a substantially higher number of net portability requests vs its competitors with Telefónica and Vodafone apparently under the most pressure from the recent success of MM. Again we stress that we expect these figures from MM, both on broadband and mobile, to accelerate from the levels seen until February as the launch of Yoigo's convergent product only occurred in February and as this offer gathers pace so should MásMóvil's commercial momentum.

This is why our customer numbers have been revised upwards considerably, driving our overall revenue figures up. We also note that in the mobile segment we have included the impact from the recent acquisition of Lamayo, a small MVNO that has roughly 170k subs and this helps drive the numbers up as well.

EBITDA outlook

On the EBITDA side our forecasts also see a significant upwards revision. Firstly there is the natural impact from higher revenues which mechanically leads to higher EBITDA generation.

Secondly we are including a sharp step up in the pace of execution from the synergies resulting from the acquisition of Yoigo and Pepephone. This is basically what we can read from MM's 2017E EBITDA guidance, i.e. going from a pro-forma 2016 EBITDA of €118.9m to a number above €200m is mostly driven by the €60m in network savings the company is targeting. Under our previous assumptions we were just assuming that in 2017E MM would be able to extract €32m of these savings which now looks too conservative.

The importance of the contract renegotiations with TEF

While we could argue that MM could be somewhat optimistic in its assumptions this year, we believe recent developments suggest otherwise, namely after the renegotiation of the roaming agreement with Telefónica.

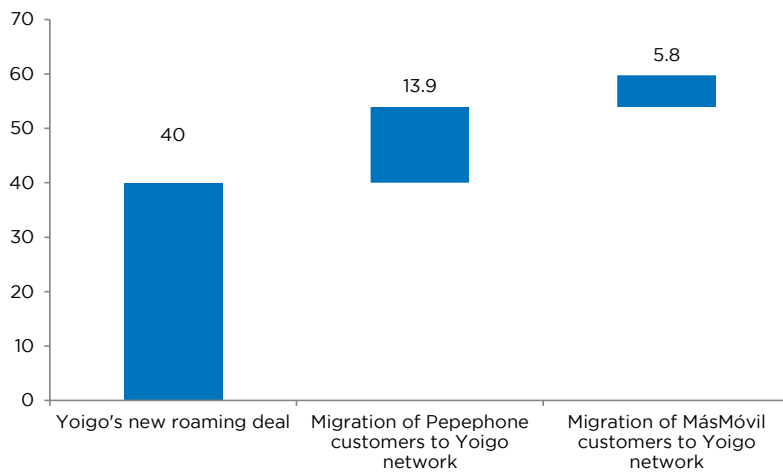
While MásMóvil has signed a contract with Orange that will eventually replace TEF as Yoigo's mobile network partner in the areas where Yoigo does not have its own coverage, the company was able to renegotiate the terms of the



current deal with TEF. It is our belief, judging from the indications also provided by TEF and other market operators, that MM was able to replicate the very attractive terms it has reached with Orange, thus going from annual roaming costs for Yoigo of roughly €120m/y to €80m/y, but with the advantage of being able to carry out a much more progressive migration into Yoigo's network and therefore prevent any issues with clients. At the same time it would already enjoy the full economic benefit from the change in provider, i.e. already saving €40m in 2017E.

On top of these savings we need to take into consideration the fact that the company is already migrating clients from Pepephone and MásMóvil into Yoigo's mobile network, thus enabling a reduction in the payments to their respective mobile network providers. Given that under these contracts Pepe and MásMóvil pay in excess of €45m/y to their respective providers, it is not surprising we expect an additional €15/€20m saving coming just from this area and that would not even correspond to a full migration of Pepephone and MM mobile customers to Yoigo's network. In a nutshell we see the following savings arising from network savings in 2017E:

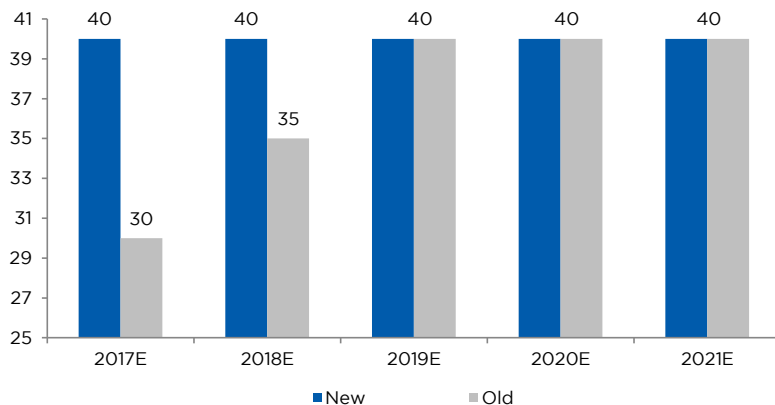
Figure 7 Haitong 2017E network synergies estimates (Eur m)



Source: Haitong Research for estimates

In total we foresee €59.7m in network savings, consistent with the company's message.

Figure 8 Haitong estimates for savings with Yoigo roaming costs



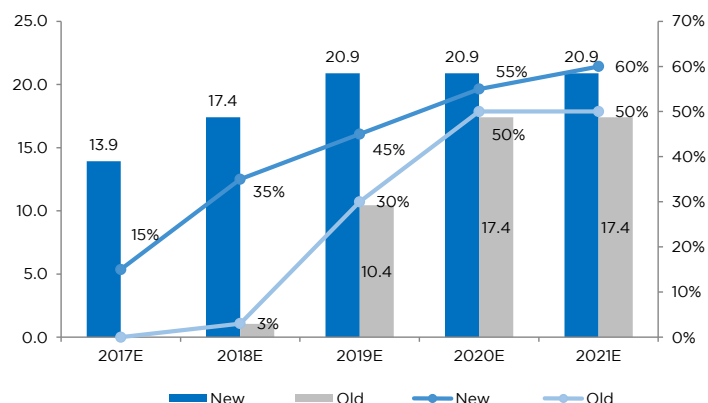
Source: Haitong Research for estimates

In terms of Yoigo's costs we have basically brought forward from 2019E to 2017E the full realization of the €40m savings with roaming charges.



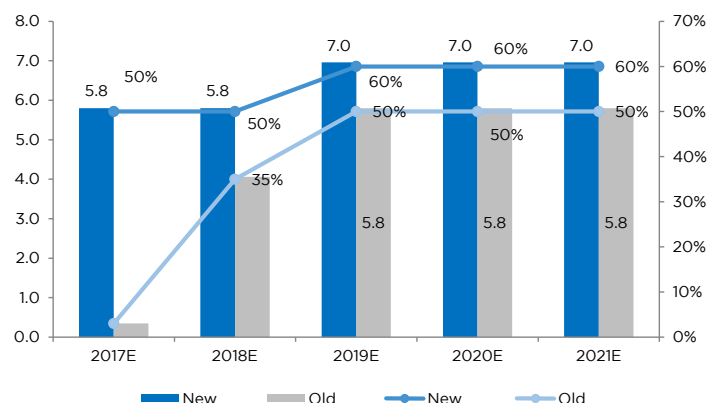
Regarding the migration of Pepephone and MásMóvil mobile traffic to Yoigo's network our assumptions have changed as follows:

Figure 9 Savings from Pepephone customer migration to Yoigo's mobile network (Eur m)



Source: Haitong Research for estimates

Figure 10 Savings from MásMóvil customer migration to Yoigo's mobile network (Eur m)



Source: Haitong Research for estimates

In the case of Pepephone, we now expect on a run rate (by 2021E) 60% of its mobile traffic to be carried over Yoigo's network which should lead to annual savings of €20.9m vs our previous 50% assumption which corresponded to annual savings of €17.4m. In the case of MásMóvil customers, our assumption is that already by 2019E 60% of them will be served through Yoigo's network, thus leading to an annual cost saving of €7m.

Churn reduction will be the medium-term game changer

For 2017E we estimate a total of €65m (including as well some smaller savings with general OPEX not described in the previous charts) in synergies. We are also including a component that the company is yet to quantify and which we believe shall be quite important going forward, i.e. the savings to be obtained through the churn reduction on Yoigo's mobile customer base.

The ability to sell a convergent offer should in our view allow for a material reduction in Yoigo's churn. In our initiation report on MásMóvil we had already highlighted this possibility and therefore in our initial expectations we had already included OPEX savings coming from this possibility. Still the faster than expected commercial expansion the company is achieving has led us to take a more optimistic take on the churn reduction potential of Yoigo, therefore contributing to another upwards revision in our synergies.

In the recent results conf call management hinted that churn at Yoigo was already coming down, but not detailing by how much, only indicating that 40% of Yoigo's churn was driven by the lack of a convergent offer, something that has been addressed with the recent commercial launch.

We do not think that all of the 40% of churning will be convinced by the convergent offers of Yoigo. Therefore we do not foresee a scenario whereby Yoigo's churn will be cut by 40%. However, we think that a good portion of these customers can be kept and the faster than expected commercial progress the company is enjoying probably accelerates the churn reduction path.

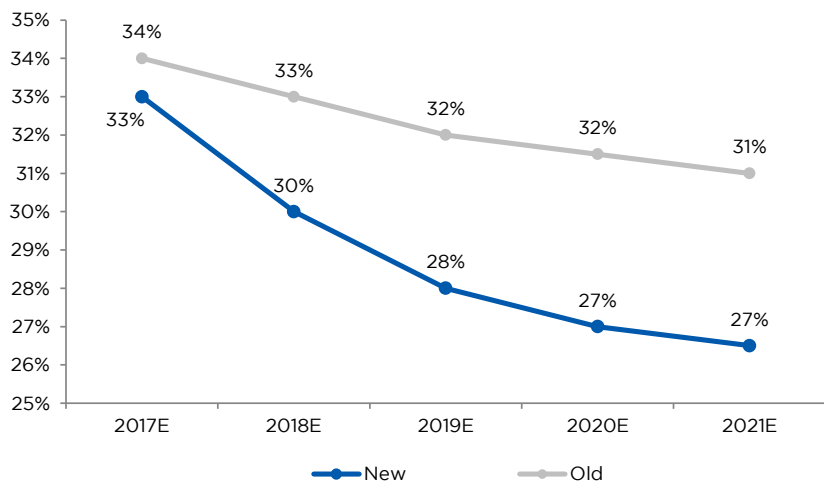
The last available figure on Yoigo's churn is for FY15, reaching 35%, and this compares for instance with Telefónica at 19.2% in the same period or Orange at 27.7% and Vodafone at 28.4%, underlining well the consequences of not having a convergent offer to limit customer rotation.

Another indication of the impact of Yoigo's churn is in the overall number of Subscriber Acquisition/Retention Costs which in 2015 exceeded €140m. Therefore even a small decrease in churn could produce important savings.



Under our previous assumptions we were assuming a mild drop in churn over the next few years. However, given the good commercial traction behind the group's convergent offers, we believe the pace of decline in churn will be steeper.

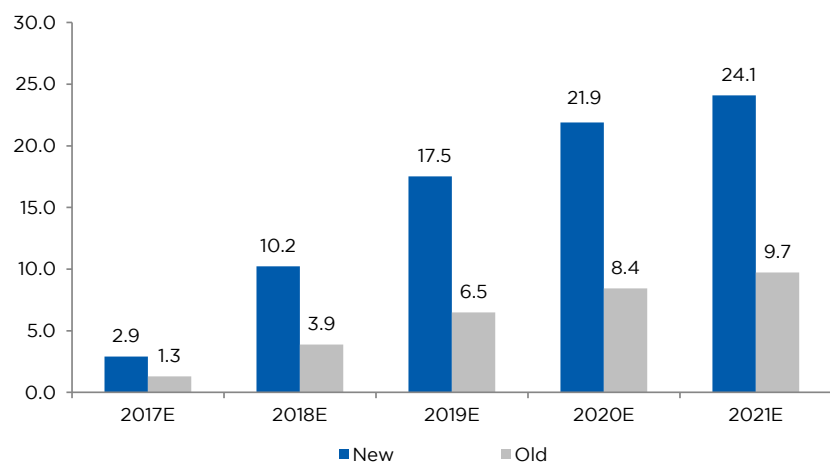
Figure 11 Haitong estimates for Yoigo's churn decrease



Source: Haitong Research for estimates

This higher churn reduction naturally translates into more savings and therefore this has also contributed to our improved synergies expectations.

Figure 12 Haitong estimates for savings with Yoigo churn decrease (Eur m)



Source: Haitong Research for estimates

CAPEX outlook

Our CAPEX numbers have seen a significant increase. Naturally higher customer growth shall mean increased investment, not only in infrastructure but also in terms of customer CAPEX. MásMóvil currently has 940k homes with fibre, most of them coming from the remedies from the Orange-Jazztel deal.

We recall that the company has 3 drivers to increase its FTTH footprint:

- 1) Co-investment agreement with Orange to build as much as 1m houses until 2019E, out of which MM will be responsible for developing 500k homes in less dense urban areas;
- 2) Other co-investment deals to be established with other entities;



- 3) The wholesale agreement signed with Orange to use its full national FTTH network which basically gives the company virtual access to 10m houses.

These 3 options give the company enough flexibility in our view to opt for the best option in terms of increasing its FTTH footprint, namely in terms of the economics of each option. We believe the next 3 years will be a period of heavy investments where the company should be at the peak of both customer growth and investments. Following this phase not only we shall see a slowdown in spending but the scale and delivery of the synergies should be at almost cruising speed which we think will ultimately lead to a rapid deleveraging exercise that will bring MM's Net Debt/EBITDA to close to 1.4x in 2020E, underlining as well what we believe is MM's strong operational leverage.

Haitong vs Bloomberg consensus

Figure 13 Haitong estimates vs Bloomberg consensus

	2017E			2018E			2019E		
	Haitong	Consensus	% dif	Haitong	Consensus	% dif	Haitong	Consensus	% dif
Revenues	1209	1171	3.2%	1336	1280	4.3%	1,439	1360	5.8%
OPEX	990	976	1.5%	1058	1037	2.1%	1128	1078	4.6%
Recurrent EBITDA	218.9	195.5	12%	277.1	243	14%	311.7	282	11%
CAPEX	169.2	164	3%	160.3	160	0%	143.9	134.3	7%

Source: Haitong Research, Company Data and Bloomberg for consensus

Generally speaking our assumptions are more bullish than consensus. We highlight though that Bloomberg consensus is built taking into consideration a limited amount of contributors, since there are not many analysts covering the stock. Therefore we advise caution when looking at these figures. Still it is our belief that as the year progresses and delivery exceeds market expectations, consensus should move up.

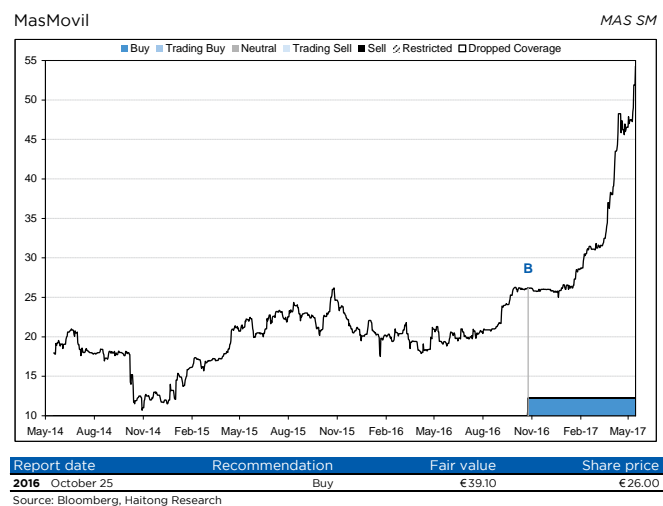


Valuation Methodology

We value the company's assets through a DCF model, assuming only their underlying performance with no impact from the synergies resulting from the assets integration. We calculate these synergies through separate DCF models depending from their origin. We then sum it all up through a SoP model where we use YE17E Net Debt level, which includes all the interest paying debt of the group, namely the convertible bonds held by MásMóvil. We also take into consideration the NPV of the variable payments on the Yoigo acquisition.

Risks to Fair Value

The main risks to our FV are the synergies we estimate with the integration of the assets. 44% of our EV is the NPV of the synergies which are naturally subject to execution risks, even if we believe this value creation opportunity does imply a relatively risk-free execution process. MásMóvil has limited size vs its larger competitors and on top of that much higher leverage. We believe the competitive environment in Spain shall remain fairly stable but a radical change in this assumption would represent a risk for MásMóvil. Additionally the company has committed to make significant fibre investments to grow its presence in the convergent segment; failing in this objective would affect the group's valuation.



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	Total Haitong Research		Total Investment Banking Clients			Total Haitong Research		Total Investment Banking Clients		
	Count	% of Total	Count	% of IBC	% of Total	Count	% of Total	Count	% of IBC	% of Total
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Buy	84	39.6%	7	77.8%	3.3%	368	47.7%	43	84.3%	5.6%
Neutral	87	41.0%	2	22.2%	0.9%	255	33.1%	7	13.7%	0.9%
Sell	41	19.3%	0	0.0%	0.0%	148	19.2%	1	2.0%	0.1%
Restricted	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0.0%
Under Review	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0.0%
Total Recommendations	212	100%	9	100%	4.2%	771	100%	51	100%	6.6%

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