

Q3 2015 PREVIEW

OTE (Hellenic Telecoms)

Sustained domestic momentum

Q3'15 results on 5th Nov (pre market) – Despite the headwind from capital controls, we anticipate a solid quarter for OTE's Greek operations with fixed revenues slightly up yoy and mobile -5% (in broad sync with Q2). On the other hand, the ongoing weakness in international operations (Romania fixed -2%, Albania -4%) continue to dilute the steady momentum in Greece and are likely to lead to a 2% drop in group revenues (+0.3% in Q2). In terms of profitability, we expect group adj. EBITDA of EUR350mn, -5.7% yoy (-8% in Q2) but +10% qoq. On the cash flow front, despite the working capital pressure we expect OTE to deliver adj. FCF of cEUR102mn, not far from the EUR127mn delivered in Q3'14. Post the EUR85mn VES and EUR39mn dividend payments, we see net debt slightly higher qoq at cEUR1,088mn. Assuming cash generation in Q3 is in sync with our estimates, the guidance for adj. FCF "close to EUR500mn" in FY15e is likely to be reiterated, we reckon.

Steady momentum in domestic market – Competitive intensity in Greece has lately abated as consumers have started to place increasing value on network reliability. **In domestic mobile**, Cosmote is in the front seat on 4G (77% population coverage) and is thus well-placed to benefit from rising 4G penetration. Interestingly, following a period of price competition, Q3'15 has seen Cosmote edge up its mid-tier tariff (e.g. Cosmote to ALL 35) while it continues to offer competitive prices in higher tier packages in an attempt to upsell to higher speed plans. For Q3'15, we are looking for a mid single-digit decline in mobile ARPU vs. -3.8% in Q2'15. **In domestic wireline**, competitors' tariff plans also point towards moderating competition, with Forthnet appearing to have lost momentum (BB subs flattish between Q1'14 and Q2'15). OTE has been making a strong promotional push for its double-play unlimited plan (first 3 months free), but this is complemented with an enriched pay-TV offering now retailing at cEUR3.0 higher prices since Aug'15. Besides being key for customer retention, pay-TV also offers speed upselling opportunities. For Q3'15, we anticipate fixed line losses of c21K (after an unusually strong Q2), continuing growth in BB subs (+29K) driven by TV (+25K to 402K), and flattish fixed-line revenues (+0.6% in Q2'15).

Investment case – a) Resilient cash flow; b) Solid balance sheet, with OTE fully-funded in coming years, most of gross cash held internationally and net debt/EBITDA <1x; c) Prospect for higher cash returns assuming capital controls in Greece ease, with OTE comfortably funding DPS >EUR0.30 (>4-5% yield) from 2016; d) Great medium term potential from pay-TV (subscriber growth, ARPU inflation, VDSL upselling).

Valuation – OTE is trading at >40% discount vs. EU telcos on most metrics, rendering the current level as quite attractive for long-term investors. Our PT implies a conservative 4.3x 2016e EV/EBITDA, still c35% discount to EU peers, and is based on a 12% blended WACC. Each 1% variation in WACC is worth c10% to our PT (€1.1/share).

Estimates

| EUR mn | 2013a | 2014a | 2015e | 2016e | 2017e |
|------------------|---------|---------|---------|---------|---------|
| Revenues | 4,054.1 | 3,918.4 | 3,893.4 | 3,883.5 | 3,891.3 |
| EBITDA adj.* | 1,456.3 | 1,421.6 | 1,355.9 | 1,382.2 | 1,403.3 |
| Net Profit adj.* | 244.1 | 317.3 | 272.2 | 319.4 | 336.5 |
| EPS adj.* | 0.50 | 0.65 | 0.56 | 0.65 | 0.69 |
| DPS (gross) | 0.00 | 0.08 | 0.30 | 0.32 | 0.39 |

Valuation

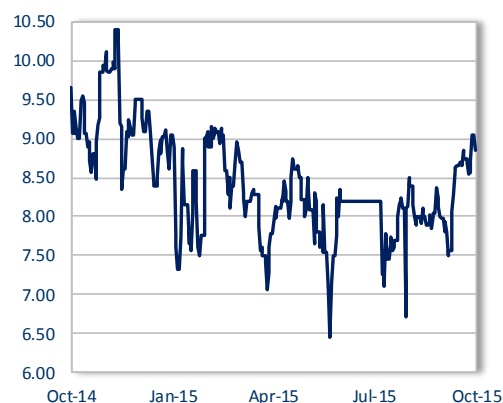
| | 2013a | 2014a | 2015e | 2016e | 2017e |
|------------------------|-------|-------|-------|-------|-------|
| P/E adj.* | 14.1 | 16.6 | 15.9 | 13.6 | 12.9 |
| EV/EBITDA | 3.8 | 5.0 | 4.3 | 3.9 | 3.5 |
| EBIT/ Interest expense | 2.6 | 2.9 | 3.8 | 4.8 | 5.6 |
| Yield (gross) | 0.0% | 0.7% | 3.4% | 3.6% | 4.4% |
| ROE | 18.0% | 13.2% | 9.9% | 12.4% | 11.8% |

*Adjusted for exceptional items. Includes continuing operations only.

| | |
|-----------------------|---------------|
| Recommendation | BUY |
| Target Price | €10.00 |
| Closing Price (29/10) | €8.85 |
| Market Cap (mn) | €4,338.3 |

| | |
|-----------------------|-------|
| Expected Return | 13.0% |
| Expected Dividend | 3.4% |
| Expected Total Return | 16.4% |

OTE Share Price



Stock Data

| | |
|--------------------------|---------|
| Reuters RIC | OTEr.AT |
| Bloomberg Code | HTO GA |
| 52 Week High (adj.) | €10.40 |
| 52 Week Low (adj.) | €6.45 |
| Abs. performance (1m) | 11.6% |
| Abs. performance (YTD) | -2.7% |
| Number of shares | 490.2mn |
| Avg Trading Volume (qrt) | 777.5k |
| Est. 3yr EPS CAGR | 2.0% |
| Free Float | 50% |

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See Appendix for Analyst Certification and important disclosures

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This report has been written by Stamatios Draziotis, CFA (Equity Analyst).

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12-month Rating History of OTE

| Date | Rating | Stock price | Target price |
|------------|--------|-------------|--------------|
| 30/10/2015 | Buy | € 8.85 | € 10.00 |
| 04/08/2015 | Buy | € 7.25 | € 10.00 |
| 14/05/2015 | Buy | € 8.50 | € 12.40 |
| 08/05/2015 | Buy | € 8.33 | € 12.40 |
| 02/03/2015 | Buy | € 8.90 | € 12.40 |
| 18/02/2015 | Buy | € 7.60 | € 12.40 |
| 21/01/2015 | Buy | € 8.84 | € 12.60 |
| 07/11/2014 | Buy | € 9.46 | € 13.40 |
| 22/10/2014 | Buy | € 10.02 | € 13.60 |

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| Stock Ratings | Coverage Universe | | Investment Banking Clients | |
|---------------|-------------------|-------------|----------------------------|-------|
| | Count | Total | Count | Total |
| Buy | 13 | 45% | 2 | 15% |
| Hold | 8 | 28% | 1 | 13% |
| Sell | 1 | 3% | 0 | 0% |
| Restricted | 2 | 7% | 2 | 100% |
| Under Review | 5 | 17% | 1 | 20% |
| Total | 29 | 100% | | |

Analyst Stock Ratings:

| | |
|---------------|---|
| Buy: | Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock. |
| Hold: | We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell. |
| Sell: | Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock. |
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