EQUITY RESEARCH

25th July 2018

Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

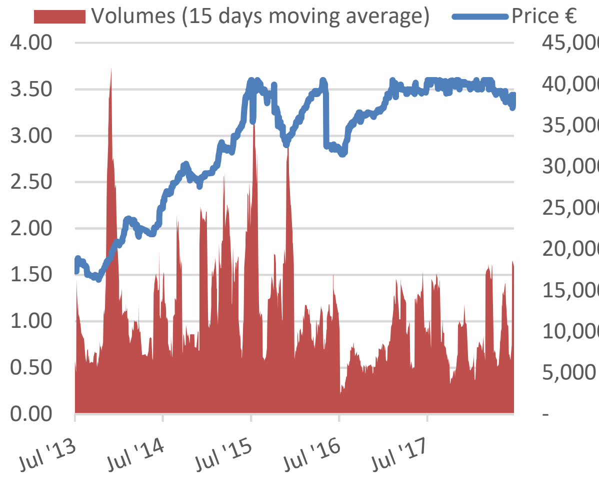
Go p.l.c. (GO)

Stock Rating	**HOLD**
Price Target (1Y)	**€3.52**

Country	Malta
Industry	Telecommunications & ICT
Ticker	GO
Price	€3.42
Upside / downside to PT	2.8%
Market Cap	€346.5m
Shares Outstanding	101.31m
Free Float	34.6%
Net Dividend Yield	3.8%
Current P/E*	20.8x
Forward P/E**	19.3x

*** Based on FY17 EPS**
**** Based on CC estimates**

Price Movement	Exchange MSE
52-week Range	€3.20-€3.60



Source: Malta Stock Exchange

Executive Summary:

"We are reaffirming our HOLD recommendation on GO. The Group has shown a favourable financial performance in 2017, together with consistent, growing dividends in the last four years, which we believe can be maintained going forward. At the current market price the shares are trading at an attractive net dividend yield of 3.8%. Despite this, GO slightly decreased its market share in Malta throughout its segments due to the high competition. In view of the above, we deem the equity to be fairly priced in the current market environment."

Company Overview:

GO is a converged and integrated telecommunications group and the first quadruple play operator in the Maltese market. The Group offers fixed-line and mobile telephony, data and TV services for consumers and business clients as well as data centre facilities and ICT services to business clients provided by its subsidiaries BMIT and Kinetix.

GO is 65.4% owned by Tunisie Telecom, who bought the shares from Emirates International Telecommunications (Malta) Limited during 2016 and as part of this process GO acquired direct control over its investment in Forthnet S.A (Forthnet), provider of fixed line telephony services, broadband services and satellite pay TV services in Greece. As at today the investment in Forthnet is completely written off.

Milestones:

In January 2016, following the good performance of Cablenet Communications System Limited (Cablenet) and the recovery of the Cypriot economy, Go exercised its option to convert into shares its loan of €12 million to Cablenet, leading provider of high speed broadband, TV and fixed-line telephony services to personal and business clients in Cyprus, to become the majority shareholder with a 51% interest. Therefore, Cablenet was consolidated in the Group's financial statements. Cablenet entered the Mobile sector in Cyprus at the end of 2017, becoming a quad-play communication operator, to potentially increase its customer base and market share.

During 2016 GO acquired a 51% shareholding in Kinetix Solutions Limited (Kinetix) which specialises in the design, implementation, support and optimisation of ICT solutions for the corporate sector, therefore strengthening its position as an ICT service provider for corporate customers in Malta. On 1st March 2018 GO exercised its option to buy the remaining 49% of Kinetix.

Market Research

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During 2017, in collaboration with Sparkle (the international services arm of Italian operator TIM Group) GO concluded an upgrade to its bilateral international cable to also introduce 100 GB transmission technology.

SWOT Analysis

Strengths

- ✓ Largest communications operator in Malta with over 500k customer connections and 64,000 households reached by the GO Fibre-to-the-Home ("FTTH").
- ✓ GO is the only operator in Malta rolling out the FTTH.
- ✓ One-stop-shop for business users and corporations by combining fixed, mobile telephony and internet services with data centre and ICT services.
- ✓ Increasing paid dividends during the last four years.
- ✓ High focus on the infrastructural upgrade to offer a better customer experience.
- ✓ Awarded fastest mobile network in Malta in 2017.

Weaknesses

- ✗ Highly capital intensive industry but limited market size, especially in Malta.
- ✗ Retail revenue from legacy fixed voice service continue to decline.
- ✗ Highly exposed to the Maltese market trends.

Opportunities

- o Growing use of mobile devices and therefore of mobile telephony services and broadband.
- o GO submitted an application to MCA to be allocated 800 MHz spectrum that would enable GO to launch 4G+ services on a commercial basis.
- o Increasing population and GDP in Malta.

Threats

- ! Increased competition in Malta and Cyprus.
- ! Stricter regulatory requirements and constraints.
- ! GO is a major supplier of technology and services to operators working out of Malta (e.g. i-gaming companies) and any negative impact on the ability of the industry to retain its significant presence in Malta would have a negative impact on the Group's profitability.
- ! Decline in average revenue per user (ARPU) - ARPU in the telecom industry in Malta[1].
- ! Increasing TV internet-based services threatening pay-tv service providers.

[1] Key market Indicators for electronic communications and post: Q1 2014 to Q1 2018, MCA.

Investment Stance

Our 12-month price target is €3.52. We are re-affirming our **HOLD** recommendation on GO. The Group has shown a favourable financial performance during 2017, together with consistent, growing dividends in the last four years, which we believe can be maintained going forward. The Group is experiencing an increase in revenue, thanks to the growing population in Malta and favourable performance of the Maltese economy as well as a direct result of infrastructure investments aimed at providing an enhanced customer experience. Despite this, GO saw a slight decrease in its market share in Malta throughout its market segments due to the high competition in the telecommunication industry.

Going forward we believe that the Group will experience an increase in its profits, driven by a growth in total revenue, especially from the Data Centre segment, and less than proportional growth in costs. With regards to the Group's operations in Cyprus, although Cablenet's revenue experienced a 6.4% revenue growth in 2017, its profitability decreased as a consequence of higher expenses incurred to improve its infrastructure and services provided in order to support future growth in the Cypriot market. We expect revenues to continue to increase sustained by the growth of the Cypriot economy, the investments made by the Group as well as a result of the entrance into the mobile telephony market which will allow the company to offer a complete telecommunication package to its customers and therefore consolidate and strengthen its market position.

GO is currently trading at 20.8x 2017 earnings and at 19.3x 2018F earnings, which is quite in line with its long term average of 21.3x. We would expect the share to trade marginally lower historical multiples at 19.0x projected future earnings, more in line with comparables (18.8x) such as Orange, Hellenic Telecommunications Organisation SA, Telefonica SA, etc.

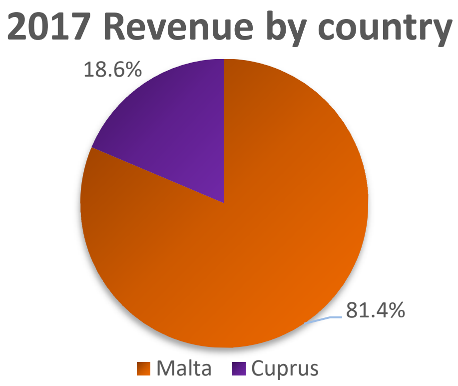
In view of the above, we deem the equity to be fairly priced in the current market environment.

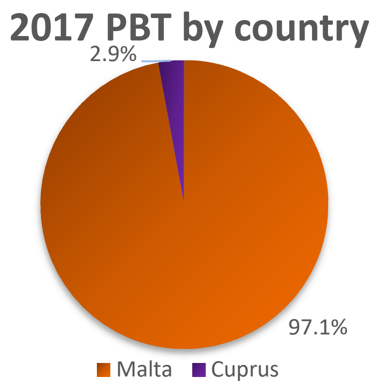
Investment Thesis Variables

FY15 and FY16 are not comparable due to significant changes in the Group structure – namely the spin-off of Malta Properties Company (MPC) at the end of 2015 and the 51% acquisition of Cablenet and Kinetix at the beginning of 2016.

FY Ending	2015A	2016A	2017A	2018F	2019P	2020P
	€'mln	€'mln	€'mln	€'mln	€'mln	€'mln
Revenue	123.70	156.97	166.30	174.66	182.13	188.86
Direct costs	(70.37)	(94.50)	(96.56)	(102.70)	(107.09)	(111.05)
Administrative and other related expenses	(27.14)	(37.54)	(5.68)	(42.79)	(43.79)	(45.55)
Other operating income	1.65	1.34	1.51	1.42	1.42	1.45
EBIT	27.84	26.28	29.53	30.59	32.68	33.71
Depreciation & Amortisation	(23.80)	(35.36)	(36.05)	(36.77)	(37.50)	(38.25)
EBITDA	51.63	61.63	65.57	67.36	70.18	71.96
Adjustment arising on fair valuation of property	0.00	(0.23)	0.00	0.00	0.00	0.00
Losses attributable to investment in JVs	0.00	(1.50)	0.00	0.00	0.00	0.00
Gain arising on re-measurement to fair value of previously held equity interest upon acquisition of subsidiary	0.00	6.08	0.00	0.00	0.00	0.00
Adjustment arising on fair valuation of derivative financial instruments	6.95	0.00	0.00	0.00	0.00	0.00
Share of results of associates	0.24	0.00	0.00	0.00	0.00	0.00
Finance Costs	(1.88)	(3.36)	(2.18)	(2.16)	(2.16)	(2.16)
Finance income	1.06	0.82	0.33	0.33	0.33	0.33
Profit Before Tax	34.20	28.10	27.87	28.75	30.84	31.87
Income tax expense	(7.79)	(7.80)	(9.87)	(10.06)	(10.79)	(11.16)
Profit after tax	26.41	20.29	18.00	18.69	20.05	20.72
Profit available to Company shareholders	26.41	18.44	16.69	17.99	19.23	19.71
Non-controlling interests	0.00	1.85	1.31	0.70	0.82	1.01
EPS	0.261	0.182	0.165	0.178	0.198	0.205
Revenue growth	1.2%	26.9%	2.7%	5.0%	4.3%	3.7%
EBITDA margin	41.7%	39.3%	39.4%	38.6%	38.5%	38.1%
EBIT margin	22.5%	16.7%	17.8%	17.5%	17.9%	17.8%
Net margin	21.4%	12.9%	10.8%	10.7%	11.0%	11.0%

- **Revenue –** Despite the continuous decline in revenue from fixed voice services, revenue increased by 5.9% during 2017 year on year (YoY). This is partly due to the Group's efforts to improve the quality of its services and expand its customer base, and the good performance of the Maltese and Cypriot economies. Group's revenue also benefited from the new 'Roam Like At Home' regulation, which was implemented during the summer of 2017 and will have a full year impact in 2018.





In 2017 the telecommunication market in Malta saw a higher demand of services and especially of fixed and mobile broadband products. The number of mobile subscriptions in Malta totalled 604,725 by the end of 2017, with a penetration rate of 127%. This represents a YoY increase of 3.3% in the number of subscriptions. Total fixed broadband service subscription went up by around 6%[2].

During 2017 Go maintained a strong market presence, although it saw its market share throughout its segments decreasing, especially with respect to, fixed broadband (-3.3pp) and fixed telephone (-3pp).

Segment	GO	Melita	Vodafone
Fixed telephony	61.00%	36.10%	2.60%
Mobile telephony	36.74%	18.58%	43.22%
Fixed broadband	48.11%	47.27%	4.32%
Pay TV	44.86%	55.15%	n/a

Source: MCA Annual report 2017

The Group, through BMIT and Kinetix, is active also in the IT sector, offering hosting, data and cloud services to businesses and organisations. Through the expansion in this sector the Group is working towards becoming a one stop shop for corporates, offering communications, data, and ICT services. In general, the information and communication sector in Malta has shown positive trends in terms of Gross Value Added in the last six years, contributing 6% to the Maltese GDP 2017. On this basis, and on the basis of the historical performance of this segment within the Group, we expect the contribution from this segment to continue increasing.

Cablenet revenue has experienced a 6.4% growth YoY in 2017. Cablenet is undertaking investments in its infrastructure and operations in order to lay down the basis to sustain further growth in future. In general, the Cypriot economy is showing signs of recovery, with increasing GDP (+3.9% in 2017 and +3.6% and +3.3% expected in 2018 and 2019 respectively[3]) and decreasing unemployment from 10.4% in 2017 to 8.4% as at May 2018. We expect Cablenet revenue to keep on growing at quite sustained rates in the near future, benefiting from these trends, from the continuous investments made by the company and from the entrance of Cablenet into the mobile telephony market.

We expect the Group's revenue to achieve middle single digits growth in 2018 (+5.0%) as a result of the positive outlook of the Maltese and Cypriot economies and of the information and communication sector,

[2] Annual Report and Financial Statements 2017, Malta Communications Authority.
[3] Summer 2018 Economic forecast for Cyprus, European Commission.

and continue growing albeit at a lower rate in 2019 (+4.3%) and 2020 (3.7%), mainly supported by Cablenet and the Data Centre operations.

- **Margins** –
  - **EBITDA margin** - 2017 showed an EBITDA margin of 39.4% compared to 39.3% in 2016 thanks to a more efficient management of the costs and a positive one off positive effect attributable to a €1.5 million movement in provisions for impairment of trade and other receivables. We expect a slightly lower EBITDA margin for 2018 at 38.6% as a consequence of the new collective agreement signed with the General Workers Union, and estimated still high investments in Cyprus continuing in 2018 which would lead to higher operating expenses. We expect the EBITDA margin to remain stable at 38.5% in 2019 and decrease to 38.1% in 2020 as a result of the higher leases expenses attributable to the new data centre in Zejtun currently being development by MPC[4].
  - **EBIT margin** – The Group's EBIT margin for 2017 was of 17.8%. We expect an EBIT margin of 17.5% for 2018 as a result of the higher payroll costs following the new collective agreement signed during 2017 with the General Workers Union and the increasing expenses being incurred by Cablenet to improve its infrastructure and service. We expect the EBIT margin to improve again in 2019 to 17.9%.
- **Abnormal gains/loss and fair value movements** – we are not considering any abnormal gains nor fair value movements in our valuation.
- **Finance costs –** Finance costs for 2017 decreased by 35% to €2.18 million (2016: €3.36 million) as a result of a reduction in Group's borrowings between 2017 and 2016.
- **Tax –** we have assumed an effective tax rate of 35% in line with 2017, however, once Cablenet becomes more profitable the effective Group's tax rate might be lower (corporate tax rate in Cyprus in 12.5%).
- **Minority interest –** we expect the minority interest to decrease in 2018 following the acquisition of the remaining 49% of Kinetix during March 2018.
- **EPS** – we are forecasting an EPS figure of €0.178 in 2018 (2017 EPS€0.165), €0.198 in 2019 and €0.205 in 2020.

Valuation

Our 1yr price target is €3.52. The price target is calculated using an earnings based approach with a forward P/E of 19.0x and a discount rate of 10.7%.

The P/E multiple reflects the average performance of international comparable companies, and on the long term observed P/E multiples of the Group.

The discount factor includes an enterprise specific risk premium of 3% which takes into account mainly the risk of higher completion in the telecommunication industry which may threat the growth of the Group.

[4] Effectively, following the adoption of IFRS 16 from 2019, operating lease agreements will be treated like financial leases, therefore the Group will incur a depreciation charge and interest expense instead of the current lease expenses. Overall, we don't expect the effect on profitability to be significant due to the relatively small size of the operating lease expenses.

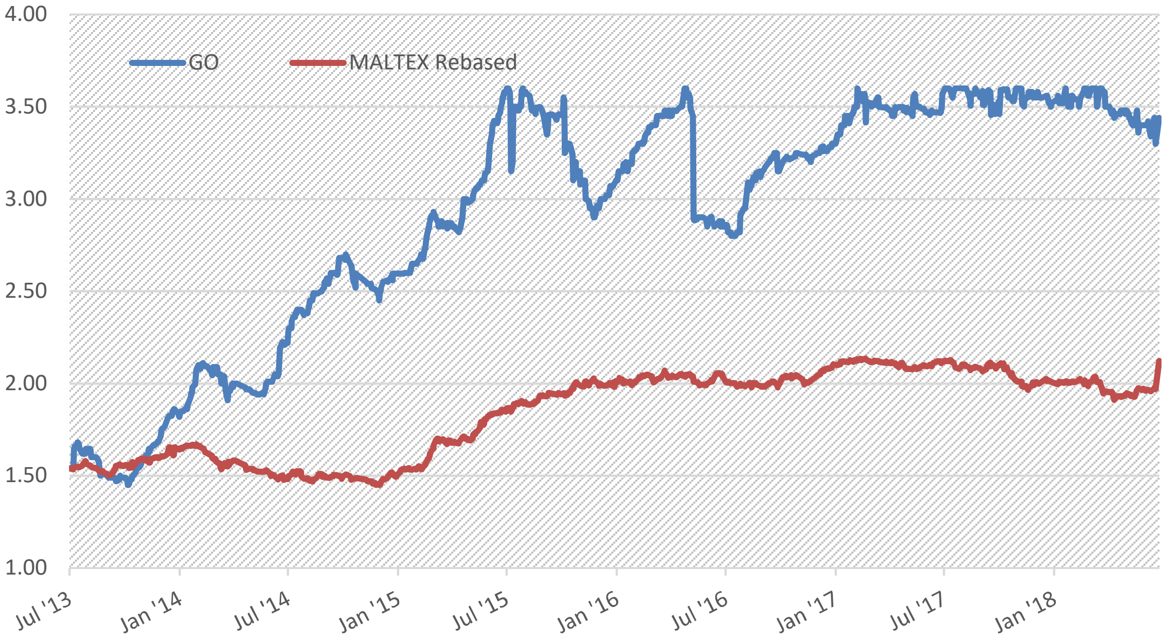
Key Financial Indicators

	2014	2015	2016	2017
	€ 'million	€ 'million	€ 'million	€ 'million
Revenue	122.3	123.7	157.0	166.3
EBITDA	46.6	51.6	61.6	65.6
Operating Income (EBIT)	21.8	27.8	26.3	29.5
Net Income (before other comprehensive income)	8.0	26.4	20.3	18.0
EPS	0.079	0.261	0.182	0.165
Net Dividend / Share	0.07	0.10	0.11	0.13
Growth in Revenue (YoY)	*0.1%*	*1.2%*	*26.9%*	*5.9%*
Gross Profit Margin	*41.2%*	*43.1%*	*39.8%*	*41.9%*
EBITDA Margin	*38.1%*	*41.7%*	*39.3%*	*39.4%*
Operating Margin	*17.8%*	*22.5%*	*16.7%*	*17.8%*
Net Margin	*6.6%*	*21.4%*	*12.9%*	*10.8%*
Growth rate in dividends	*1.4%*	*40.8%*	*10.0%*	*19.7%*
Sustainable growth rate in dividends	*0.9%*	*17.8%*	*8.5%*	*3.4%*
Cash and Cash Equivalents	12.5	2.7	9.7	13.7
Current Assets	50.3	44.8	49.9	56.0
Non-Current Assets	167.0	162.8	199.9	195.8
Total Assets	217.3	207.6	249.8	251.8
Current Liabilities	55.0	65.0	78.1	83.8
Non-Current Liabilities	58.9	50.5	62.5	52.9
Total Liabilities	113.8	115.5	140.6	136.7
Total Debt	56.1	58.5	73.8	67.9
Total Equity	103.4	92.1	109.2	115.1
Net Debt	43.6	55.8	64.1	54.2
Shares Outstanding	101.31	101.31	101.31	101.31
Return on Common Equity	*7.8%*	*27.0%*	*20.2%*	*16.1%*
Return on Assets	*3.7%*	*12.7%*	*8.1%*	*7.1%*
Current Ratio	*0.91x*	*0.69x*	*0.64x*	*0.67x*
T. Liabilities / T. Assets	*52.4%*	*55.6%*	*56.3%*	*54.3%*
Net Debt / Total Equity	*42.2%*	*60.6%*	*58.7%*	*47.1%*
Net Debt / EBITDA	*0.9x*	*1.1x*	*1.0x*	*0.8x*
Cash from Operations	40.3	36.8	63.8	57.0
CAPEX	(20.1)	(25.9)	(45.6)	(33.9)
Free Cash Flow	20.2	10.9	18.2	23.1
Cash used in Financing	(23.9)	(18.3)	(22.1)	(19.3)
Net cash movement	(14.2)	(14.9)	6.2	3.9
Net Debt/CFO	*1.08x*	*1.52x*	*1.00x*	*0.95x*
CFO/EBIT	*1.85x*	*1.32x*	*2.43x*	*1.93x*

Source: Company's Audited financial statements

Historical Price

Reference	Date	Price	Price Target	Analyst	Recommendation
GO MV	25.07.2018	€3.42	€3.52	Simon Psaila & Elisabetta Gaudiano	Hold
GO MV	01.12.2017	€3.55	€3.58	Simon Psaila & Elisabetta Gaudiano	Hold



Source: Bloomberg

Glossary and Definitions

Income Statement	
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
Earnings per share ("EPS")	Earnings per share is the portion of a company's net profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.
Profitability and other ratios	
Costs ratio	It is an indicator of overall company efficiency. The ratio is calculated dividing total costs by total sales.
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency	
Return on Equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by the average shareholders' equity over the period.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.
Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Company, net of income tax and interest paid.
Cash flow from investing activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company.
Capital expenditure (CAPEX)	Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment, net of disposals and excluding non-recurring items. It is often used to undertake new projects or investments by the firm.
Free cash flows (FCF)	FCF is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. FCF represents the cash that a company is able to generate after spending the money required to maintain or expand its asset base.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Company.
Balance Sheet	
Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include intangible assets (goodwill on acquisition), investment properties, and property, plant & equipment.
Current assets	Current assets are all assets of the Company, which are realisable within one year from the balance sheet date. Such amounts include inventory, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Company within a period of one year from the balance sheet date, and include accounts payable and short-term debt.

Net debt	Borrowings before unamortised issue costs less cash and cash equivalents.
Non-current liabilities	The Company's long-term financial obligations that are not due within the present accounting year. The Company's non-current liabilities include bank borrowings and bonds.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.
Financial Strength Ratios	
Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's EBITDA of one period by the company's interest expense of the same period.
Net debt / Equity	Net debt / equity ratio is a debt ratio used to measure a company's financial leverage, calculated by dividing a company's net debt by its stockholders' equity. This ratio indicates how much net debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

Disclaimer