

Telekom Slovenije (TLSG SV)

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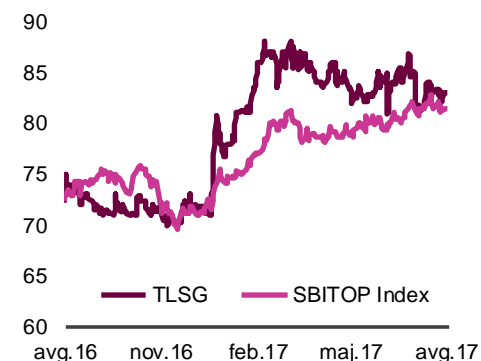
NEW
INVESTMENT
CULTURE
12M Target price: 96 EUR Recommendation: BUY

Previous target price: 98 EUR, BUY (12.5.2017)

KEY MARKET DATA:

Stock data as of 17.08.2017 :		Price performance:		3M	12M
Market price (EUR)	83.0	Price change in %	-0.4%	10.7%	
52 week range (EUR)	70.0 - 88.0	SBI 20 index change in %	3.1%	11.5%	
Market Cap (EUR)	542.4	Relative to SBI 20 index in %	-3.4%	-0.7%	
		Valuation multiples:		TTM	Forward
Avg. daily trade vol., EUR(k)	77	EV/Sales	1.3	1.3	
Average daily % of stock traded	0.015%	EV/EBITDA	4.7	4.6	
No. of Shares in millions	6.5	EV/EBIT	25.1	22.5	
		P/E	11.2	13.1	
Dividend yield	6.0%	P/B	0.8	0.8	

SHARE PRICE DYNAMIC:



KEY COMPANY DATA & ESTIMATES:

million €	FY2015	FY2016	TTM	2017F	2018F
Sales	745.9	711.2	719.6	713.6	716.3
EBITDA	206.4	199.3	200.8	207.0	209.9
Margin	27.7%	28.0%	27.9%	29.0%	29.3%
EBIT	50.8	36.1	37.8	42.1	49.8
Net income	68.6	39.9	48.3	41.4	37.8
EPS	10.3	6.1	7.4	6.3	5.8
DPS	5.0	5.0		5.0	5.0
Financial debt	390.2	408.7	427.9	390.7	351.7
Cash	10.6	42.6	21.9	34.7	34.9
Net debt	375.3	365.4	406.0	313.8	314.3
Equity	701.7	706.4	698.8	718.4	601.4
Assets	1,316.0	1,367.4	1,354.7	1,345.7	1,183.0
ND/EBITDA	1.8	1.8	2.0	1.5	1.5
P/E	7.1	11.6	11.2	13.1	14.4
EV/EBITDA	4.1	4.2	4.7	4.6	4.5

* 4.1x if LT and ST investments are included!

KEY CURRENT DEVELOPMENT:

- In August 2017 on one hand a new lawsuit added to the total liabilities exposure (albeit usually only relatively small chunk materializes), however on the other hand it seems Telekom Slovenije did not submit a bid for Gorenjska Banka d.d. majority stake. **This should, in aggregate, lift some overhang and sentiment headwind.**
- Otherwise 1H17 result do not warrant any change to our 2017 or longer term estimates – as indicated in our end July report.
- Our target price structure still implies that **on the first glance (w/o one offs included) that market price is fairly representing Telekom Slovenije Group value.** EV/EBITDA at 4.7x with generous dividend yield. However this does not account for possible lawsuits or cash inflow from exercising put option for Macedonian deal (EUR 120m). The later being higher and more likely than the former (in our opinion), consequently **some upside exists. We believe** exercising a put option could be a possible positive catalyst for share price to catch up.
- Target price is set to EUR 96 per share (only a slight change versus last valuation report). **Buy recommendation remains intact.**
- We believe this will remain a good high dividend performer.

1H17 Results

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million EUR	1Q16	2Q16	1H16	1Q17	2Q17	1H17	YoY
Sales	175.6	172.0	347.6	179.9	187.3	367.1	5.6%
Operating revenues	177.6	173.8	351.4	181.3	188.8	370.1	5.3%
COGS	15.4	13.9	29.3	14.3	16.0	30.3	3.3%
Cost of services	73.9	72.7	146.5	84.8	83.3	168.2	14.8%
Labour costs	27.6	27.7	55.3	27.0	27.8	54.8	-1.0%
EBITDA	52.5	52.6	105.1	50.8	56.0	106.8	1.7%
Margin	29.9%	30.6%	30.2%	28.2%	29.9%	29.1%	-3.7%
EBIT	11.8	11.5	23.3	10.2	15.0	25.2	8.0%
Net income	8.7	8.4	17.1	10.6	13.7	24.3	41.5%

- Total opex is up 5.1% YoY to EUR 344.9m.
- Labor costs slightly decreased, in-line with lower headcount YoY.
- D&A expenditures also stagnated at EUR 81.6m.
- COGS up 3.3% while cost of materials and energy are up 7% to EUR 7.6m.
- In cost of services main contributors to growth were international billing (EUR 49.6m +18% YoY), multimedia services (EUR 12.4m, +19%) and undisclosed other costs (EUR 33.4m, +57%). This was only slightly smoothen by lower network interconnection costs (EUR 17.8m, -5%) and maintenance of PPE costs (EUR 11.6m, -8%).
- Net financial result contributed most to earnings beat as it improved by EUR 6.1m, due to lower finance cost and share of profit from JV. As for taxes, deferral again positively contributed to bottom line (EBT 23.5m).

- Non-controlling interest at EUR -1.5m, so net at EUR 25.7m.
- Given the 1H17 results, EBITDA guidance (206.8m) and net profit guidance (EUR 41.3m) look achievable. Our estimates, which are close to guidance, also remain achievable, with net profit even on tract for a beat.

million EUR	2016	1Q17	2Q17	YoY
Financial debt	408.7	407.2	427.9	4.7%
Cash	42.6	27.2	21.9	-48.6%
Net debt	366.2	380.0	406.0	10.9%
Investments	127.2	127.7	129.0	1.4%
Net debt 2	239.0	252.4	277.0	15.9%
Equity	706.4	716.1	698.8	-1.1%
Assets	1,367.4	1,361.5	1,354.7	-0.9%

- Higher revenues are mostly due to wholesale market (+7.8% to EUR 96.5m), IT service revenues and revenues from electronic toll collections (new business). In this respect 2Q17 continued positive 1Q17 dynamic. Note that non-traditional sources (non mobile, fixed or wholesale related) provided revenues a boost of EUR 18.2m in 1H17 versus 1H16, which explains most of the YoY top line gain.
- Mobile segment is still under pressure (-5.8% to EUR 123.5m), but this is expected dynamic.
- Fixed end-user market stood at EUR 120.1m, up 1.7% YoY in 1H17 versus 1H16.
- Broadband connections are at 353,082, up 2.0 from 2016 yearend, while fixed and mobile connections are at 2,092,888 down 1.7% from 2016 yearend.
- In Slovenia revenues were up 10.2% YoY or by EUR 35.2m (due to mentioned new businesses). In Kosovo revenues were by 1.9% in 1H17, while in other SEE markets revenues fell and consequently disappointed.
- In terms of profitability Kosovo operations are still negative from net perspective, however a slight operating profit was achieved in 2Q17.
- CAPEX amounted to EUR 62.0m, up by only 2% YoY. In 2Q17 CAPEX toned down versus 1Q17.
- Telekom Slovenije Group generated net cash from operating activities in the amount of EUR 59.1m, down from EUR 88.3m due to NWC and provisioning and with net cash from investment activities of EUR 62.1m.
- Telekom Slovenije has EUR 0.1m in LT associates and JV, EUR 4.9m in other LT financial assets, EUR 4.2m in investment property and EUR 119.9m in current financial assets. Especially the later should be considered as net debt deductible as exit from Macedonia is still envisioned. This lowers EV multiples.²

1H17 Results - supplemental

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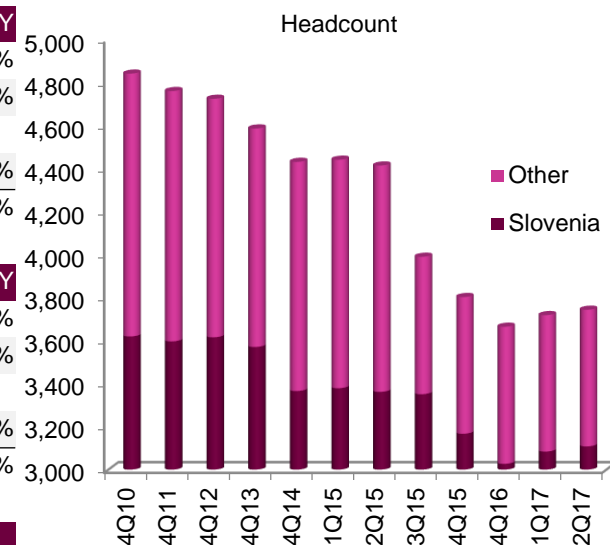
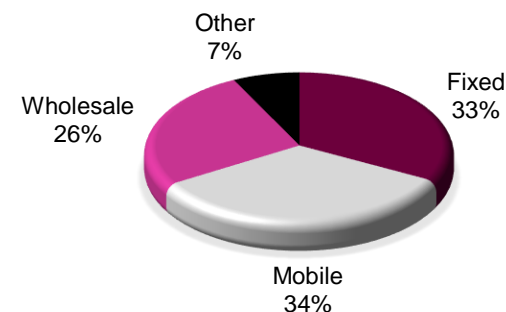
Revenues (in EURm)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	Q YoY	YoY
Telekom Slovenije	161.821	159.030	159.343	166.240	165.068	170.909	7.5%	4.7%
Other companies in Slovenia	9.700	14.291	15.194	20.425	16.473	27.581	93.0%	83.6%
IPKO-Kosovo	16.654	17.325	19.417	16.698	16.388	18.223	5.2%	1.9%
Other SEE companies	4.961	5.683	5.667	5.372	5.035	5.362	-5.6%	-2.3%
Total	193.136	196.329	199.621	208.735	202.964	222.075	13.1%	9.1%

EBITDA (in EURm)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	Q YoY	YoY
Telekom Slovenije	45.936	45.134	42.495	33.725	45.424	47.398	5.0%	1.9%
Other companies in Slovenia	0.128	0.777	1.100	2.126	-1.599	1.050	35.1%	
IPKO-Kosovo	5.215	5.387	7.64	4.728	5.374	6.514	20.9%	12.1%
Other SEE companies	1.133	1.481	1.524	1.645	1.500	1.416	-4.4%	11.6%
Total	52.412	52.779	52.759	42.224	50.699	56.378	6.8%	1.8%

EBIT (in EURm)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	Q YoY	12M YoY
Telekom Slovenije	12.066	11.049	8.945	0.284	12.178	13.716	24.1%	12.0%
Other companies in Slovenia	-0.652	-0.043	0.230	1.229	-2.488	0.124		240.1%
IPKO-Kosovo	-0.167	-0.274	1.989	-0.986	-0.371	0.769		
Other SEE companies	0.242	0.581	0.570	0.653	0.591	0.495	-14.8%	32.0%
Total	11.489	11.313	11.734	1.180	9.910	15.104	33.5%	9.7%

Net operating profit (in EURm)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	Q YoY	12M YoY
Telekom Slovenije	12.460	11.398	7.146	9.456	13.411	14.899	30.7%	18.7%
Other companies in Slovenia	-0.732	-0.149	0.145	1.206	-2.601	-0.157	5.4%	213.1%
IPKO-Kosovo	-1.753	-1.847	0.389	-2.745	-1.819	-0.126		
Other SEE companies	0.115	0.437	0.435	0.474	0.457	0.393	-10.1%	54.0%
Total	10.090	9.839	8.115	8.391	9.448	15.009	52.5%	22.7%

EBITDA margin	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Telekom Slovenije	28.4%	28.4%	26.7%	20.3%	27.5%	27.7%
Other companies in Slovenia	1.3%	5.4%	7.2%	10.4%	-9.7%	3.8%
IPKO-Kosovo	31.3%	31.1%	39.3%	28.3%	32.8%	35.7%
Other SEE companies	22.8%	26.1%	26.9%	30.6%	29.8%	26.4%



Investment Thesis

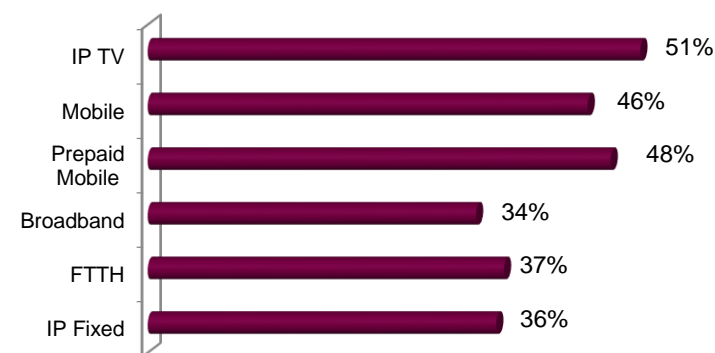
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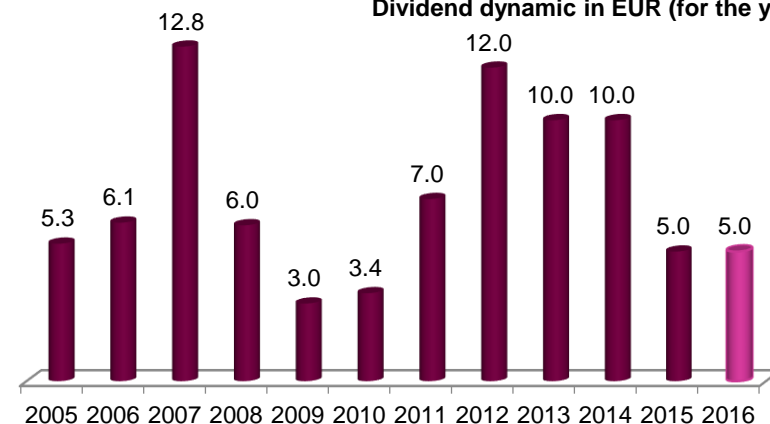
POSITIVE:

- Telekom Slovenije is incumbent telecommunications operator with **leading market share in almost all categories and broad spectrum of services**. In all but FTTH connections Telekom Slovenije is the leading provider on the domestic Slovenian market.
- LTE/4G coverage of Slovenian population is at 97% with the Group preparing for SRVCC-VoLTE and VoWifi services; 4.5 G.
- Has a put option regarding Macedonian business exit (for roughly EUR 120m)** – this would significantly lower reported net debt. In addition consequently adjusted EV/EBITDA multiples are lower than reported headline multiples. Namely taking into consideration significant LT and ST investments (mostly tied to Macedonia), **EV/EBITDA contracts from 4.7x to mere 4.1x**. All in all incremental value is EUR 19.7 per share, or 24% of current market price.
- Telekom Slovenije **is on track to deliver EBITDA 2017 guidance of 206.8m and profit guidance of EUR 41.3m**.
- With pay-out ratio close to 100% of profit and likely further delivery of EUR 40m of profit we see roughly EUR 5 per share dividend as **sustainable**. Given the current market price this implies a generous **6.0% gross dividend yield**. All in all Telekom Slovenije can be, if it continues to tackle pricing pressures with new services and cost optimization, **a stable dividend performer**.
- Net debt to EBITDA is at comfortable 2.0x**. S&P Global Ratings credit rating agency assigned a BB+ long-term corporate credit rating to Telekom Slovenije with stable outlook attached.
- While Telekom Slovenije past few years dynamic was unimpressive, it should be viewed from divestment and especially industry perspective. The graph of right clearly shows its EBITDA growth dynamic, anemic as it was, was still in-line with peer performance. It has however still room for cost optimization – as shown by margin discrepancy.
- Several projects to tackle situation are underway: insurance, financial services, safe house, e-health, big data monetization, all in one shop etc.

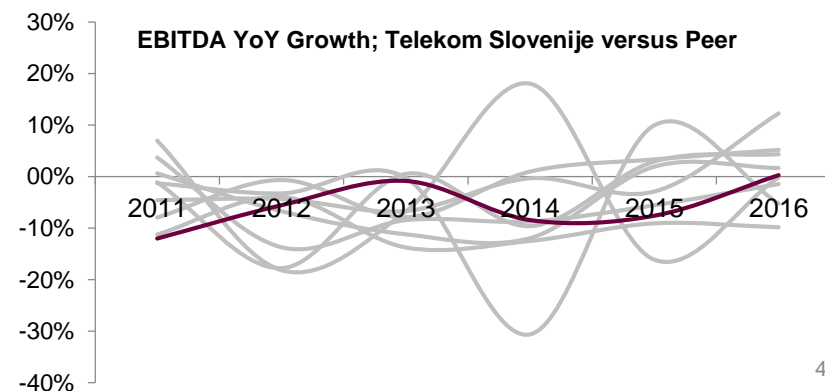
Dominant position - market shares:



Dividend dynamic in EUR (for the year)



EBITDA YoY Growth; Telekom Slovenije versus Peer

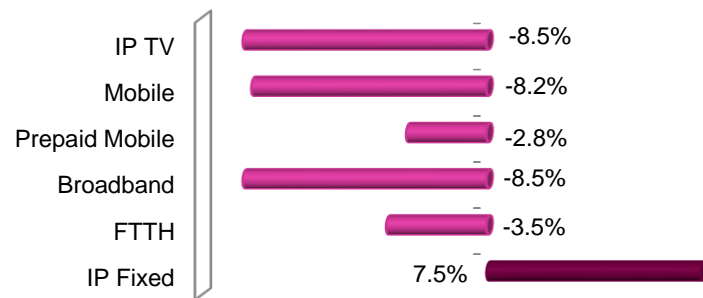


Investment Thesis

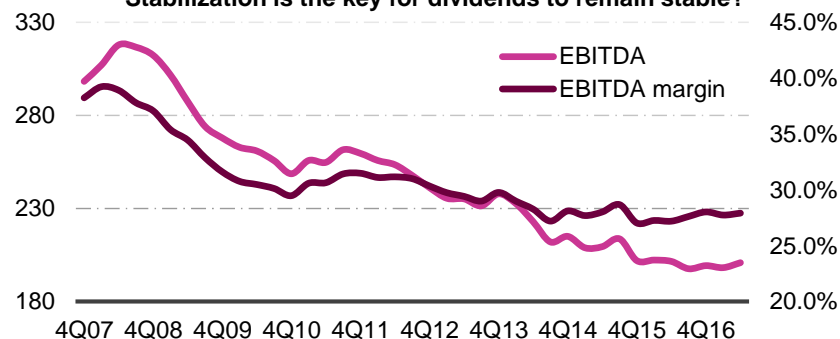
NEGATIVE:

- **Typical incumbent risks: mature market, pricing and market share pressures** ... that can and need to be balanced by cost optimization and introduction of new services (IT, cross sell etc.). However execution risk always exists.
- **CAPEX demands are elevated** (EUR 147.7m in 2016), also due to FTTH investments. While the idea is that FTTH user will be more demanding in terms of additional services (like TV content), its always possible services like Netflix, HBO etc. will spoil the broth in the mid to long term.
- Lawsuits claims lowered from EUR 650m in 2012 to EUR 177m in 2017. While we don't expect majority of this to materialize, **its still an elevated level of lawsuits**. T2 claim and lawsuits is sticky, constantly being moved to first instance court. In addition trend turned **in August** when **Telekom Slovenije received a new lawsuit** (its subsidiary Blicnet d.o.o. Banja Luka) from Mtel a.d. whereby the plaintiff demands the payment of damages in the amount of KM 98.3m (**EUR 50.3m; would translate into EUR 7.7 per share**) due to alleged unfair competition etc. No further info is known.
- **Competitive landscape remains difficult**. Telemach (cable operator; through United Group) has started to attack the market from different sides. Namely they have bought Tušmobil (mobile operator) while also most viewed TV channels POP TV and Kanal A. At the same time they own sport content providers Sportklub. Its yet to be seen what their strategy will be, but surely this poses a risk. On the other hand T2, while constantly close to financial troubles, is putting a price pressure on FTTH and broadband segment while A1 is competing harshly in mobile segment. Hofer now also entered the mobile market.
- Telekom Slovenije owns 66% stake in Antenna TV SL d.o.o. (offering Planet TV program), however the company had a loss of EUR 13.1m in 2016, EUR 11.6m in 2015 and EUR 11.1m loss in 2014. This story is increasingly becoming sour and from bottom line perspective is far from negligible.

Other side of the coin - market share loss from 1Q11:



Stabilization is the key for dividends to remain stable?



Market shares	TS	A1	Telemach	T2
Mobile	45.7%	30.0%	17.3%	4.2%
Prepaid	48.1%	21.6%	18.5%	
Broadband	34.1%	11.9%	25.2%	19.2%
FTTH	37.0%	9.3%	4.4%	43.5%
IPTV	51.2%	16.1%	0.3%	32.0%
Cable	1.9%		71.2%	

Slovenia: Cable TV (42%), IPTV (52%)

Content	Planet TV	POP TV
		Kanal A

Relative valuation

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Company name	P/E			EV/EBITDA			EV/EBIT		
	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F
Magyar Telekom	8.6	13.2	12.2	4.4	4.5	4.4	11.7	10.5	9.9
Proximus	17.7	15.8	15.9	6.9	6.4	6.3	14.7	13.1	12.8
Orange Polska	neg.	n.m.	50.4	4.8	5.0	5.0	41.7	36.3	24.6
Telecom Italia	13.0	10.6	9.5	5.3	5.2	5.0	11.4	10.4	10.1
Telekom Austria	11.8	14.6	13.8	5.4	5.4	5.3	14.3	14.0	12.8
Orange	n.m.	12.8	11.9	5.5	4.8	4.6	14.0	10.2	9.8
Hrvatski Telekom	16.0	13.4	13.4	4.0	3.9	3.7	9.2	8.7	8.2
TeliaSonera AB	24.7	11.9	11.5	7.8	9.0	8.9	12.8	15.3	14.8
Telekom Srpske	8.2	n.a.	n.a.	3.4	n.a.	n.a.	8.5	n.a.	n.a.
Telekom Slovenije	11.2	13.1	14.4	4.7	4.6	4.5	25.0	22.5	19.0
Median	13.0	13.2	12.8	5.3	5.1	5.0	12.8	11.8	11.5

Company name	EBITDA margin TTM	EBIT margin (%)	Profit margin (%)	ROE TTM	ROA TTM	Assets turnover	Div. yield (%)	Assets/ Equity	Net debt to EBITDA
Magyar Telekom	31.3%	11.8%	9.6%	10.6%	5.2%	0.54	0.00	2.05	1.81
Proximus	29.0%	13.5%	9.1%	19.3%	6.4%	0.70	2.47	3.03	1.01
Orange Polska	26.3%	3.0%	-15.2%	-17.4%	-7.8%	0.51	0.00	2.24	2.27
Telecom Italia	42.6%	19.8%	7.0%	6.4%	2.0%	0.29	0.00	3.23	3.32
Telekom Austria	32.2%	12.2%	10.6%	19.6%	6.0%	0.57	2.60	3.44	1.75
Orange	27.3%	10.7%	1.1%	0.8%	0.5%	0.44	4.62	3.11	2.19
Hrvatski Telekom	39.5%	17.0%	12.8%	7.9%	6.3%	0.49	3.32	1.26	-1.20
TeliaSonera AB	36.9%	22.5%	6.3%	7.4%	2.1%	0.33	5.33	2.80	2.40
Telekom Srpske	37.9%	15.0%	14.5%	9.8%	7.6%	0.52	7.12	1.29	0.20
Telekom Slovenije	27.9%	5.3%	6.7%	6.9%	3.6%	0.53	6.02	1.94	2.02
Median	32.2%	13.5%	9.1%	7.9%	5.2%	0.51	2.60	2.80	1.81

- **Our relative analysis implies an upside as target price based on EV/EBITDA and P/E is set at EUR 91.9** (without LT investments included in valuation), higher versus the last report as peer multiples expanded during the year. Note TSLG shares have not moved much YTD.
- EV/Sales can also be considered, but with below peer average operating margins only from future optimization potential. EV/Sales implies a target price of EUR 113 based on median per multiple of 1.6x.
- Looking from dividend yield perspective, Telekom Slovenije share have an excellent 6.0% yield in absolute terms as well as given the peer group. This again warrants a positive outlook on its shares.

FCF valuation - forecasts

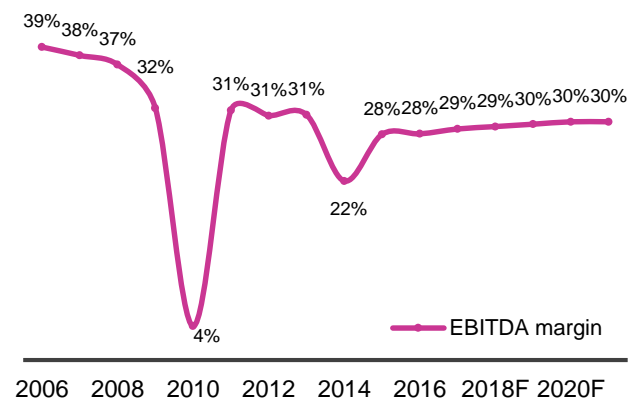
ESTIMATES:

EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Sales	713.6	716.3	719.1	722.2	725.5	729.2	732.8	736.5	740.2	743.9
COGS	78.7	82.6	86.5	90.5	94.5	95.0	95.5	96.0	96.4	96.9
Cost of Services	298.6	296.1	293.7	291.3	289.0	290.5	291.9	293.4	294.9	296.3
Cost of labour	114.3	112.6	110.9	109.2	109.7	110.2	110.8	111.3	111.9	112.5
EBITDA	207.0	209.9	212.9	216.0	217.0	218.8	219.8	220.9	222.1	223.2
EBITDA margin	29.0%	29.3%	29.6%	29.9%	29.9%	30.0%	30.0%	30.0%	30.0%	30.0%
EBIT	42.1	49.8	57.9	66.0	70.1	73.3	75.6	77.8	79.8	81.6
EBT	39.4	39.7	42.5	48.6	53.5	57.3	60.2	62.9	65.3	67.7
Net income	41.4	37.8	40.4	43.7	46.0	49.2	51.6	53.8	55.7	57.6
EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Total Assets	1,345.7	1,183.0	1,156.4	1,141.7	1,134.7	1,129.2	1,125.1	1,122.0	1,119.9	1,118.5
PPE	673.0	645.9	626.0	613.4	606.4	600.9	596.6	593.4	591.1	589.4
Intangible assets	206.5	198.2	192.1	188.2	186.1	184.0	181.9	179.8	177.8	175.8
Trade receivables	160.7	161.3	162.0	162.7	163.4	164.2	165.0	165.9	166.7	167.5
Cash	34.7	34.9	35.0	35.1	35.3	35.5	35.7	35.8	36.0	36.2
Equity	718.4	601.4	548.1	555.5	562.1	569.9	577.3	584.6	591.9	599.4
Debt	390.7	351.7	378.7	356.7	342.7	329.7	317.7	306.7	297.7	287.7
Trade payables	135.5	136.0	136.5	137.1	137.8	138.4	139.1	139.8	140.5	141.2
ROE	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
ROE	5.8%	6.3%	7.4%	7.9%	8.2%	8.6%	8.9%	9.2%	9.4%	9.6%
Net debt/EBITDA	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Net debt/EBITDA	1.72	1.51	1.61	1.49	1.42	1.35	1.28	1.23	1.18	1.13

* For 2018 we see significant change due to Macedonian exit.

MAIN ASSUMPTIONS:

- For 2017 the Group guided operating revenues at EUR 717.8m (+0.9% YoY), EBITDA of EUR 206.8m (+3.8% YoY) and net profit of 41.3m. Long term strategic guidance was not publicly disclosed. CAPEX number for 2017 was also not disclosed, but should remain elevated versus 2015.
- Our estimates mostly follow management guidance and 1H17 results delivery warrants no change.** We believe new service revenues and further cost optimization can push EBITDA margin toward 30% levels.
- Net profit level could be under more pressure than EBITDA. On one hand low yield environment is helping with interest costs, however we have built in a comeback of effective tax rate. Net profit is more unpredictable also due to group structure changes (like Macedonian operations) and possible negative events or oneoffs (Antenna TV SL, lawsuits etc.).



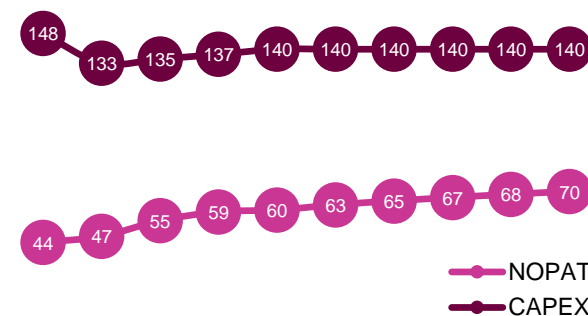
FCF valuation - commentary

VALUATION TABLE:

EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
NOPLAT	44.2	47.3	55.0	59.4	60.3	62.9	64.8	66.5	68.1	69.5
NOPLAT growth	3.8%	7.0%	16.3%	7.9%	1.6%	4.3%	3.0%	2.6%	2.3%	2.1%
Depreciation	164.9	160.1	155.0	150.0	146.9	145.5	144.2	143.2	142.3	141.6
Depreiation/Sales	23.1%	22.4%	21.6%	20.8%	20.2%	20.0%	19.7%	19.4%	19.2%	19.0%
CAPEX	147.7	133.0	135.1	137.4	139.9	139.9	139.9	139.9	139.9	139.9
CAPEX/Sales	20.7%	18.6%	18.8%	19.0%	19.3%	19.2%	19.1%	19.0%	18.9%	18.8%
Change in net working capital	17.5	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
NWC/Sales	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
FCF to firm	43.9	74.2	74.6	71.6	66.8	68.0	68.6	69.3	70.0	70.7

FCF valuation	
Value in forecasting period	451
Continuing value	440
Total enterprise value	891
Net debt	406
Equity value	485
No. of shares (in mio)	6.5
Equity value per share	74.3

WACC	2017	TV
Tax rate	-5.0%	15.0%
Cost of debt	4.9%	4.9%
Beta	1.2	1.0
Cost of equity	10.7%	9.7%
Debt/Equity	67.9%	49.0%
WACC	8.4%	7.9%
Perpetuity growth rate		0.5%



- **No change in valuation was warranted versus February model.**
- Please note further net debt adjustment is needed (*).

2017 2018 2019 2020 2021 2022 2023 2024 2025 2026

WEIGHTING SCHEME & END COMMENTARY:

- **Pure valuation indicates EUR 83.1 per share. This indicates market price is fair.**
- * Reported and our net debt calculation does not include Macedonian deal and exit option. This means that relative valuation does not include EUR 129m of long term and short investments mostly tied to Macedonia. **Currently these items calculates to EUR 19.7 per share addition.** While its possible this deal sours, we have for now added this number in the second step to calculate our final target price. All in all it seems market is not calculating in this item, pending in the next year.
- Its true however some discount (soft calculation) is needed to account for the risk regarding lawsuits (EUR 7.0 per share). **In total we calculated target price of EUR 96 per share, with implied 5.2% dividend yield. Recommendation consequently remains a buy.**

FCFF	Relative
50%	50%
EUR 74.3	EUR 91.9

Historic Financial Data

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in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets	1,471.6	1,740.5	1,739.8	1,925.5	1,658.2	1,575.3	1,521.0	1,391.9	1,343.0	1,321.6	1,367.4
Non-current assets	1,195.5	1,454.3	1,478.5	1,657.8	1,374.5	1,260.3	1,150.3	1,099.2	1,009.3	992.7	975.8
Current assets	276.1	286.2	261.3	267.7	283.8	315.0	370.7	292.7	333.7	328.9	391.6
Short term investment	51.4	28.4	21.1	0.6	13.4	21.6	61.8	10.6	1.3	103.4	119.7
Cash	68.1	60.6	18.8	21.2	46.7	61.3	44.1	59.2	23.9	10.6	42.6
Equity	989.3	1,062.7	1,014.4	1,001.6	807.8	815.3	786.0	758.6	695.0	701.7	705.9
Equity of non-controlling interests	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
Provisions	24.1	28.5	30.6	30.5	37.8	45.6	45.7	40.4	78.3	44.0	38.6
Non-current liabilities	228.6	329.4	306.4	586.6	453.1	446.5	409.6	381.9	353.3	10.2	112.9
Non-current financial liabilities	219.4	322.4	305.0	581.0	443.4	436.4	407.8	376.7	345.4	7.0	100.0
Current liabilities	186.3	279.5	336.1	251.3	295.8	207.8	237.1	161.1	144.1	513.9	449.4
Current financial liabilities	70.0	125.6	178.8	95.1	142.5	52.1	44.1	34.9	23.9	383.9	308.7
in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales revenues	745.1	780.1	842.4	847.5	839.3	815.1	786.1	779.4	756.5	728.3	701.7
Total Revenues	748.6	789.6	856.6	859.7	850.1	829.5	800.1	804.3	769.0	745.9	711.2
Cost of goods, materials and services	320.0	332.0	376.0	408.1	397.1	390.9	393.0	405.0	413.0	396.2	378.4
Labour costs	122.7	126.7	144.6	152.9	162.5	150.2	153.5	142.4	138.9	130.2	116.1
D&A plus impairments	150.6	161.8	183.8	197.7	214.5	192.4	177.0	168.3	158.6	155.6	163.1
Other operating expenses	13.4	32.7	23.8	30.9	254.5	32.8	12.4	17.0	47.0	13.2	17.5
EBITDA	292.6	298.2	312.2	267.8	36.0	255.6	241.2	239.9	170.1	206.4	199.3
Operating income	142.0	136.4	128.5	70.2	-178.5	63.3	64.2	71.5	11.4	50.8	36.1
Financial Income	7.4	7.7	7.6	5.9	4.3	10.1	8.0	5.0	17.1	39.2	23.6
Financial expenses	9.9	17.4	21.2	32.8	28.2	24.5	24.7	22.7	20.5	18.8	19.4
Interest cost	10.6	16.6	27.5	7.4	22.5	22.6	18.2	17.6	18.5	16.4	17.6
EBT	139.4	126.8	114.9	43.3	-202.4	48.8	47.5	48.9	2.6	65.0	33.9
Total taxes	36.0	38.4	28.9	13.8	7.9	14.8	2.9	-2.2	1.1	-3.6	-6.1
Net profit / loss	103.4	88.4	86.0	29.5	-210.3	34.0	44.6	51.1	1.5	68.6	39.9
Attributable to equity holders of the parent	103.4	88.4	85.8	29.5	-210.3	34.0	44.6	51.1	1.5	68.6	39.9
CAPEX	-157.9	-300.0	-234.5	-184.8	-113.6	-95.6	-128.1	-113.5	-176.6	-119.9	-147.7
in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross margin	57.1%	57.4%	55.4%	51.8%	52.7%	52.0%	50.0%	48.0%	45.4%	45.6%	46.1%
EBITDA margin	39.3%	38.2%	37.1%	31.6%	4.3%	31.4%	30.7%	30.8%	22.5%	28.3%	28.4%
EBIT margin	19.1%	17.5%	15.3%	8.3%	-21.3%	7.8%	8.2%	9.2%	1.5%	7.0%	5.1%
Net margin	13.9%	11.3%	10.2%	3.5%	-25.1%	4.2%	5.7%	6.6%	0.2%	9.4%	5.7%
Assets Turnover	0.51	0.45	0.48	0.44	0.51	0.52	0.52	0.56	0.56	0.55	0.51
ROA	7.0%	5.1%	4.9%	1.5%	-12.7%	2.2%	2.9%	3.7%	0.1%	5.2%	2.9%
Assets to Equity	1.49	1.64	1.72	1.92	2.05	1.93	1.94	1.83	1.93	1.88	1.94
ROE	10.5%	8.3%	8.5%	2.9%	-26.0%	4.2%	5.7%	6.7%	0.2%	9.8%	5.7%
Net debt / EBITDA	0.8	1.3	1.5	2.4	15.0	1.7	1.7	1.5	2.0	1.8	1.8
Debt to Assets	19.7%	25.7%	27.8%	35.1%	35.3%	31.0%	29.7%	29.6%	27.5%	29.6%	29.9%
Debt to Equity	0.29	0.42	0.48	0.68	0.73	0.60	0.57	0.54	0.53	0.56	0.58
TIE ratio	13.3	8.2	4.7	9.5	-7.9	2.8	3.5	4.1	0.6	3.1	2.0
NWC / Assets	2.6%	2.4%	3.4%	3.8%	3.9%	4.4%	1.1%	3.8%	4.5%	3.6%	2.5%
Days inventory outstanding	25.3	27.7	27.6	22.4	19.3	21.3	20.8	21.5	26.4	25.0	22.7
Days receivable outstanding	65.1	79.4	81.4	88.1	85.5	90.6	87.2	72.9	72.8	75.7	78.4
Days payable outstanding	132.6	169.2	152.7	139.7	140.9	145.4	179.3	113.8	106.3	119.7	135.7
EBITDA - CAPEX	134.7	-1.8	77.7	83.1	-77.6	160.1	113.1	126.4	-6.5	86.5	51.5

Company & ALTA Description

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COMPANY DESCRIPTION:

- Leading incumbent telecommunications provider in Slovenia that offers domestic and international fixed telephony, mobile telephony, VoIP, IPTV and broadband internet services.
- It also operates in other SEE countries. For now it also owns 45% stake in Macedonian joint venture with Telekom Austria.
- 26% revenues are generated in Wholesale, 33% in fixed services and 34% in mobile services (2016 data).
- 211,638 broadband connections in Slovenia, 26,283 in BiH and 115,161 in Macedonia; 1,078,248 mobile connections in Slovenia, 660,711 in Kosovo.

OWNERSHIP STRUCTURE:

Republic of Slovenia	62.5%
KAD d.d.	5.6%
SDH d.d.	4.3%
Perspektiva FT	1.2%
Kritni sklad PPS	0.9%

Source: KDD

RESEARCH REPORT:

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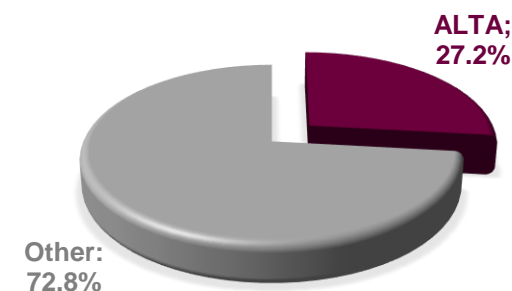
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Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.

First release of the recommendation was performed on 13.4.2010.

Quarterly updates are planned for data, valuation, target price and recommendation.

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