

DIGI

Recommendation: Accumulate

Target price (12M): RON 39

EUR m	2020	2021	2022
Sales	1,281	1,345	1,433
EBIT	167	175	188
EBITDA	474	511	550
Net profit	7	97	103
EPS [RON]	4.7	5.1	5.6
DPS [RON]	0.8	0.8	0.9
Dividend yield	2.0%	2.2%	2.8%
RGU [million]	18.1	19.3	20.2
ARPU	5.9	5.8	5.9



Share price close as of 09/04/2021	RON 35	Bloomberg	DIGI RO
Market cap. [RON mn/EUR mn]	714/2,100	Reuters	
Daily turnover 12M [EUR million]	0.13	52 week range	RON 23 - 38

Market does not appreciate Romanian growth stories?

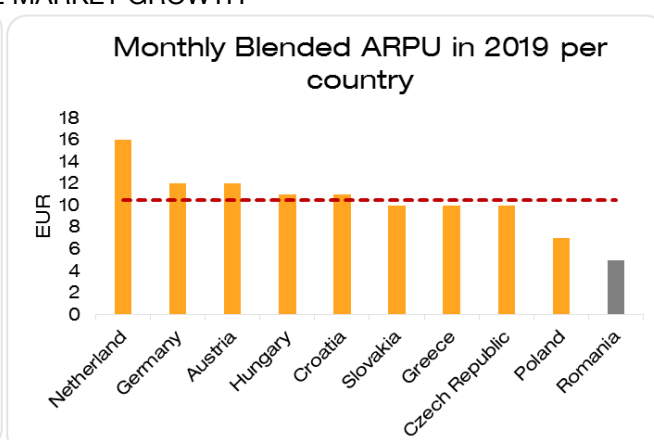
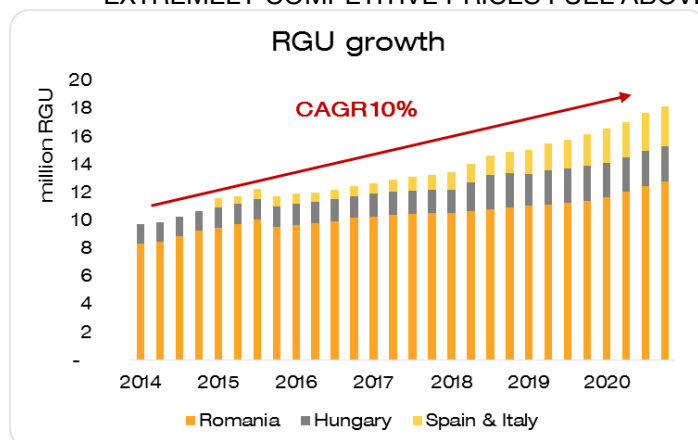
- We initiate coverage on DIGI with a 12 month target price of 39 RON/share representing a 13% total return upside and assign an Accumulate recommendation.
- **EBITDA growth** will continue to be visible in our earnings estimates (7% CAGR until 2025 vs. 15% between 2015 and 2020) fueled mainly by RGU growth in Romania and Spain and (5% CAGR until 2025 vs. 9% between 2015 and 2020) thanks to DIGI's value-for-money offerings and to economies of scale. By 2025 we think that EBITDA could reach EUR 660 million.
- Despite this enviable growth and cash flow generation capacity, FCF remain subdued because of the **aggressive CAPEX** (CAPEX/Sales ca. 28%) into mobile infrastructure development in Romania and fixed line network development in Spain. Not to mention frequency auctions in Romania. Nevertheless, dividend will grow albeit from a low basis implying a sub-sector dividend yield of 3%.
- **Valuation-wise**, headline numbers show us that DIGI is not necessarily undervalued compared to its CEE peer group or its own historical valuation, but we see different case for the DCF model. We believe the true upside for DIGI relies on its capacity to increase its ARPU, as the company offers the most competitive prices across the board, or to use its sub-market service offerings to gain market share. Unfortunately, market does not appreciate DIGI's growth story and consequently its 2-3% dividend yield, which sentiment may be tested once Romania reaches emerging market status (after Hidroelectrica's IPO in 2022Q2).
- **Recently 4IG announced its intention to acquire DIGI's Hungarian operation**, and the two had already signed a non-binding agreement about the transaction. We believe the market will be surprised how much parent DIGI could receive for the Hungarian operation, if it were to occur. We expect ca. EUR 300 – 350 million, equal to 43% of DIGI's current market capitalization, while representing only 10% of the Group's EBITDA.

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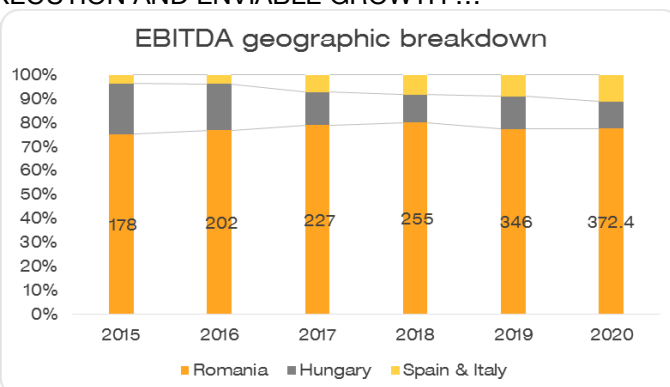
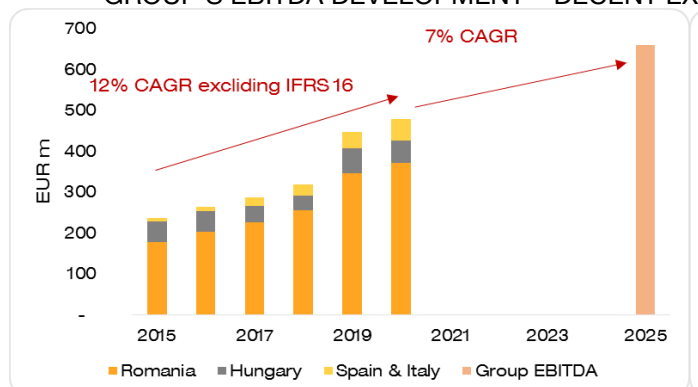
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Investment Thesis in graphs

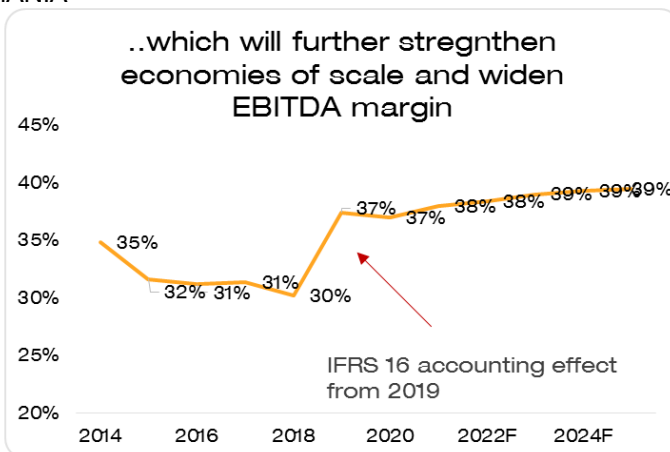
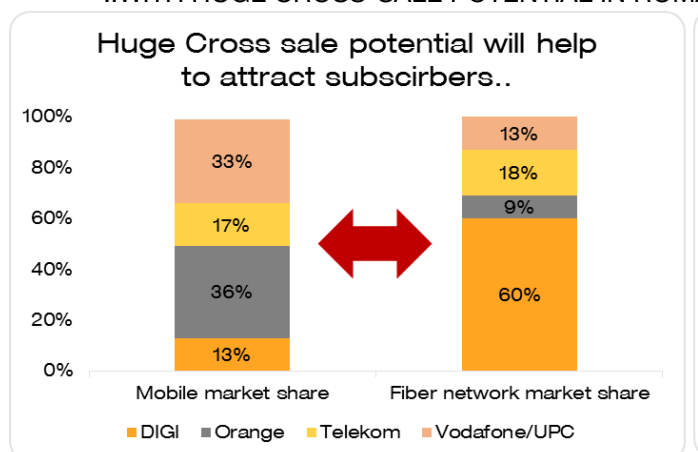
EXTREMELY COMPETITIVE PRICES FUEL ABOVE MARKET GROWTH



GROUP'S EBITDA DEVELOPMENT – DECENT EXECUTION AND ENVIABLE GROWTH ...



..WITH HUGE CROSS-SALE POTENTIAL IN ROMANIA



Source: DIGI, Concorde

Investment Thesis

- **EBITDA growth** will continue to be visible in our earnings estimates (7% CAGR until 2025 vs. 15% between 2015 and 2020) fueled mainly by RGU growth in Romania and Spain and (5% CAGR until 2025 vs. 9% between 2015 and 2020) thanks to DIGI's value-for-money offerings (new individual product offerings are 25% below the price level compared to the second cheapest¹ - bundled packages are not necessarily) and to economies of scale. By 2025 we think that EBITDA could reach EUR 660 million.
- **DIGI remains a growth story with an entrepreneurial mindset.** Despite this enviable growth and cash flow generation capacity, FCF remain subdued because of the **aggressive CAPEX** (CAPEX/Sales ca. 28%) into mobile infrastructure development in Romania and fixed line network development in Spain. Not to mention frequency auctions in Romania. Nevertheless, dividend will grow albeit from a low basis implying a sub-sector dividend yield of 3%.
- **Valuation-wise**, headline numbers show us that DIGI is not necessarily undervalued compared to its CEE peer group or its own historical valuation, but we see a different case for the DCF model. We believe the true upside for DIGI relies on its capacity to increase its ARPU as the company offers the most competitive prices across the board or to use its sub-market service offerings to gain market share. We believe the market does not appreciate DIGI's growth story, but once the company reaches maturity in its focus countries (Romania, Spain), higher dividend could be deployed and a rerating could occur. Such a trigger could be:
 - Guided lower CAPEX/Sales ratio
 - Realization of true value of the asset via the potential divestment of Hungarian operation – (4IG acquisition)
 - Gradually increasing share of EBITDA from Spain
 - MSCI EM inclusion will probably lift the Romanian equity market's visibility

To address this issue we use approaches that reflects current market sentiment and at the same time DCF model that has higher weight on longer term cash flows.
- **Recently 4IG announced its intention to acquire DIGI's Hungarian operation**, and the two had already signed a non-binding agreement about the transaction. We believe the market will be surprised how much parent DIGI could receive for the Hungarian operation, if it were to occur. We expect ca. EUR 300 – 350 million, equal to 43% of DIGI's current market capitalization, while representing only 10% of the Group's EBITDA.

¹ ¹ Based on ANCOM's (Romanian regulator) tariff comparator (veritel.ro):

- Fixed internet (300 and 500mbs) – Digi's offer is 25%-30% lower than the second best (Vodafone); it is 6 euros, respectively 7 euros per month at Digi and 8 euros, respectively 10 euros per month at Vodafone.
 - Mobile – Digi's offers starting from as low as 2 euros per month. Most of them cost around 5 euros per month. Competitors' offers start at around 7 euros per month.

Shareholder structure

DIGI went public in 2017 at an EV/EBITDA multiple of 5.5x putting 34.5% of the outstanding shares into the market. All of the publicly traded shares are Class B shares, which are inferior to Class A shares in terms of voting rights as the latter has 10 votes, while Class B has only 1. As for dividend rights, they are equal. The majority shareholder is Zoltán Teszári, the founder of DIGI, who owns 58% of the company representing 91% of the voting rights.

Zoltán Teszári bio

Zoltán Teszári, the majority shareholder of Digi Communications NV, is one of the most discrete businessmen in Romania. He never spoke directly to the media, either about business plans or personal life, and there are only a handful of public photographs of him. However, the media is full of speculations about his rise to become one of the most powerful entrepreneurs in the country. Alleged relationships with powerful politicians and secret services are a recurring topic in the media. Teszári started the telecom business in 1994, when he took over a local telecom operator in Brasov city.

Previously he was involved in several businesses from ice cream production to imports of electronics and car parts. His telecom business has gradually developed to become a competitor for Romanian subsidiaries of large multinationals (Orange, Vodafone, Telekom) mostly using the same tactic used in the first instance – taking over countless local operators. According to media reports, he used some unorthodox methods to develop the telecom business through acquisitions: he was approaching employees in key positions in the companies he was targeting, to whom, in exchange for inside information, he promised greater advantages and positions in his company.

Subsequently, armed with the inside information, he started negotiations from a much better position. Besides acquisition, Teszári's telecom business imposed in the market through a dumping strategy, offering tariffs 20% lower than the competition. According to media reports, Teszári's ambition is to transform Digi into a European telecom leader. In the past, he allegedly refused a 1 billion euro offer from Telekom. He is so discrete that even his employees, except a handful of top managers, don't know much about him, although he is said to still closely monitor and control Digi's operations. Officially, he only holds the position of Chairman of the Administration Board. Teszári owns only 3% of Digi Communications NV directly, but he owns RCS Management SA with 87% of the shares, which in turn controls 62% of Digi Communications.

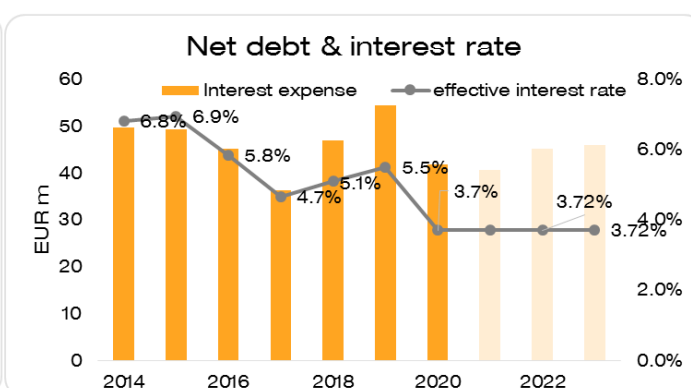
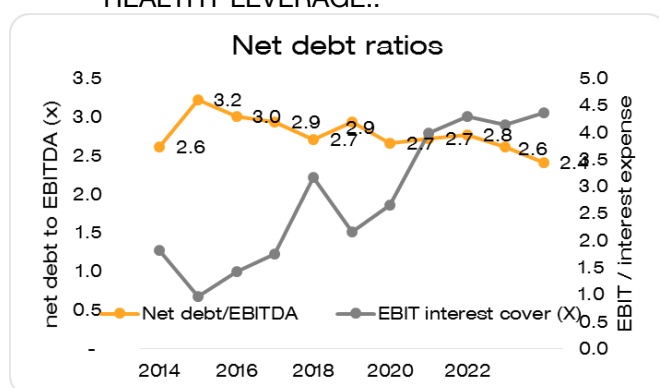
Financials

P&L FORECAST

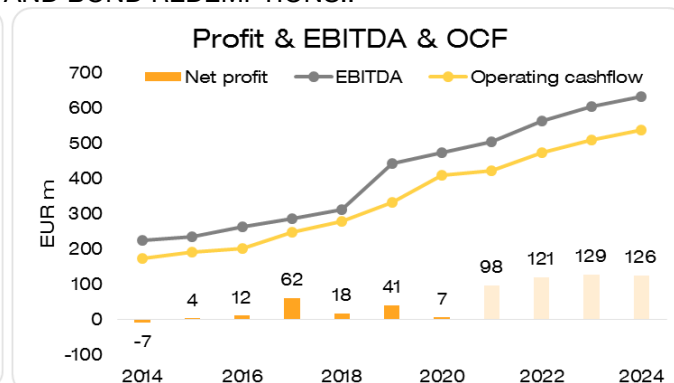
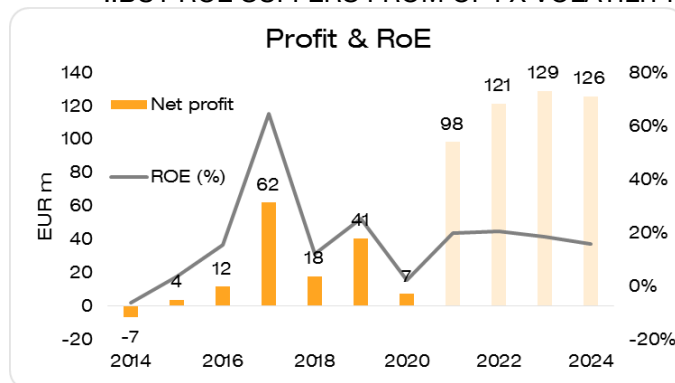
Income Statement (€ mn)	2016	2017	2018	2019	2020	2021F	2022F	2023F	CAGR	
Revenues	843	917	1,038	1,186	1,281	1,345	1,433	1,509	11%	5%
Other income	-	-	9	-	-	-	-	-		
Operating expenses	756	801	925	1,039	1,112	1,163	1,240	1,307		
Other expenses	7	3	20	2	3	2	2	2		
Operating Profit (EBIT)	79	115	102	145	167	179	190	200		
EBITDA	263	288	314	444	474	511	550	589	15%	7%
Finance income	45	20	0	10	4	-	-	-		
Finance expense	101	56	63	94	146	57	60	61		
Net finance costs	56	36	63	84	143	57	60	61		
Profit before tax	23	79	39	61	24	122	130	138		
Income tax	11	17	21	21	17	20	21	22		
Net profit	12	62	18	41	7	102	109	116	13%	149%
EBITDA margin	31%	31%	30%	37%	37%	38%	38%	39%		
EBITDA growth		10%	9%	42%	7%	8%	8%	7%		

Source: Concorde

HEALTHY LEVERAGE..



..BUT ROE SUFFERS FROM OF FX VOLATILITY AND BOND REDEMPTIONS..



Source: DIGI, Concorde

Operations

DIGI operates in four countries with fully convergent operator in Romania and Hungary – though its mobile operation is marginal – and is present in Spain and Italy as an MVNO. It is not a coincidence that DIGI entered the Italian and Spanish market as there is a large number of Romanians in the two countries – in Italy ca. 1.2 million, while in Spain 0.7 million. The three largest Romanian diaspora are in Italy, Germany (0.7m) and in Spain. The range of services varies between the countries, but the table below summarizes the current status:

AREAS OF OPERATION:

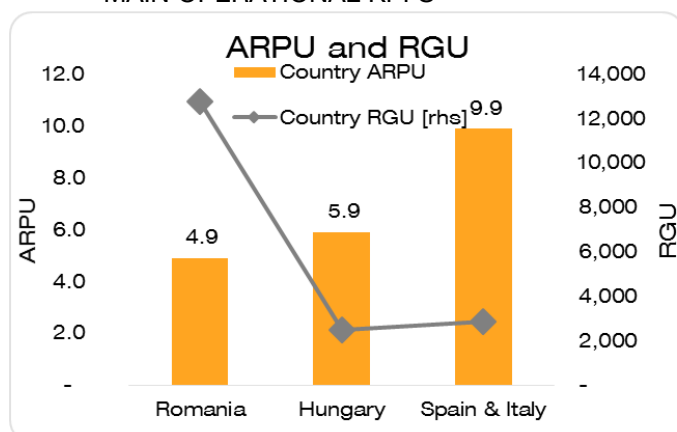
	Cable TV	Fixed Internet and Data	Mobile Telecommunication services	Fixed-line Telephony	DTH
Romania	✓	✓	✓	✓	✓
Hungary	✓	✓	✓	✓	✓
Spain		✓ ⁽¹⁾	✓ ⁽²⁾	✓ ⁽¹⁾	
Italy			✓ ⁽²⁾		

(1) Through Telefonica's network and through our own GPON FTTH network.

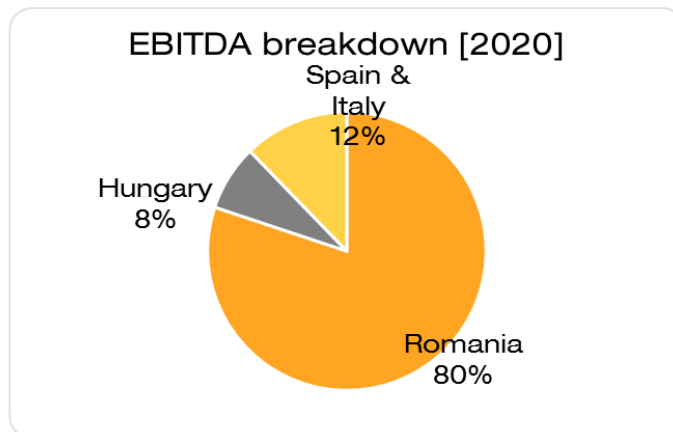
(2) As an MVNO through Telefonica's network in Spain and TIM's network in Italy.

Source: DIGI

MAIN OPERATIONAL KPI'S



Source: Concorde, DIGI



DIGI's main strategy in each of the countries is to offer the cheapest services in order to attract customers, which pays off in total RGU dynamic in the recent years (CAGR 9% between 2015-2020), but more on that in the next chapter. This growth includes inorganic growth in Romania, Hungary (Invitel) and Spain as well.

Secret sauce: Content and optic cable then mobile service

The success of DIGI's business depends on, among other things, the quality and variety of television programming delivered to DIGI's customers. DIGI depends substantially on third parties to provide them with programming TV content and they license rights to broadcast certain high interest sports events and movies on its own premium channels in Romania and Hungary. The ability to broadcast certain sports competitions, especially football matches, is integral to DIGI's ability to attract and retain customers.

MAIN BROADCASTING RIGHTS

Sport	Competition	Romania	Hungary	Period
Football	Romanian League 1	✓		2019 – 2024
Football	Romanian League 2	✓		2018 – 2021
Football	Romanian Cup	✓		2018 – 2021
Football	Romanian Super Cup	✓		2018 – 2021
Football	UEFA Champions League	✓	✓	2018 – 2021
Football	UEFA Super Cup	✓		2018 – 2021
Football	UEFA Europa League	✓	✓	2018 – 2021
Football	Premier League		✓	2019 – 2022
Football	Spanish La Liga	✓		2018 – 2021
Football	Italian Serie A	✓	✓	2018 – 2021
Football	French Ligue 1	✓	✓	2018 – 2021
Football	German Bundesliga	✓		2018 – 2021
Football	English Football League Competition	✓	✓	2020 – 2022
Football	Spanish Super Cup	✓	✓	2020 – 2022
Handball	EHF Champions League	✓		2020 – 2021
Handball	European Handballs Championships	✓		2019 – 2021
Racing	Formula One	✓		2020 – 2022
Racing	Moto GP	✓		2020 – 2023
Tennis	WTA	✓	✓	2019 – 2021
Basketball	Romanian Basketball League	✓		2020 – 2023

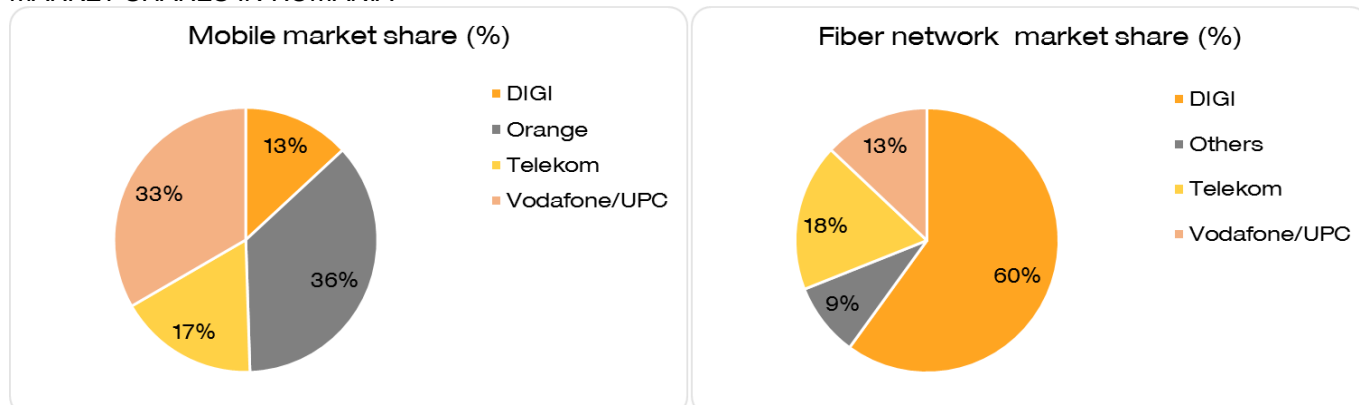
Source: DIGI Annual report 2020

It is important to have an attractive content, but it is also essential that DIGI provides that in the most cost efficient way (via optic fiber), which at the same time offers high quality at the most competitive price. The combination of the three enables DIGI to grow in subscribers and maintain high margins (pre-2014 period in Romania, pre-2016 period in Hungary). In parallel to enticing numerous customers thanks to the “secret sauce”, DIGI started to build out a mobile service infrastructure, which in the first phase usually entails with high investments and comes at the expense of margins (Romania post-2014 period; Hungary post-2016 period). Built on the large customer base that DIGI amassed with this strategy, it is relatively easy to cross-sell its mobile service offerings, which initially are cheap given the relatively new infrastructure and low coverage.

Romanian – the undisputed cost leader

The strategy in Romania is unchanged, with the lowest service prices across the board DIGI will be able to gradually increase its subscriber base (2016 – 2020: CAGR 6%). We believe cross-sale potential is huge, given the large market share in fixed line segment (ca. 60%) vs in market share in mobile market (13%).

MARKET SHARES IN ROMANIA



Source: DIGI

DIGI'S COMMERCIAL PROPOSITIONS FOR CUSTOMERS

Monthly price incl. VAT	DIGI	Telekom	vodafone	upc	orange
TV	Digital 152 channels, 38 HD	TV L 137 channels, 44 HD	TV Complet 191 TV channels, 50 HD	Global TV 129 channels, 36 HD	
Internet	FIBERLINK 1000 940 Mbps ¹	Internet L 940 Gbps <small>Limited geographic availability</small>	Net 500 500Mbps	Home Net 1000 940 Mbps <small>Limited geographic availability</small>	
Mobile	DIGI MOBILOPTIM NELIMITAT Unlimited national minutes, thousands international minutes, unlimited 4G, 80 GB/month 5G	Mobil Unlimited national minutes, unlimited SMS, 1.5 GB at 4G	Red 9 National Unlimited national minutes, 200 international minutes, 250 national SMS, 10GB national at 4G	Fun 10 Unlimited national minutes and SMS, 300 international minutes, 20 GB national internet	
Pricing ²	€19	€22	€22	€20	

Notes: Prices converted at RON-EUR FX of as of Nov 2020 for package pricing: 1. Speed subject to equipment specifications. 2. Prices estimated based on offers presented on websites and normalized promotions prices.
Source: Company data; Peer websites.

Source: DIGI's presentation

Contrary to its fixed-broadband services quality, DIGI's **mobile service** quality lags its Romanian peers but continues to invest heavily in the mobile network and it appears to converging to other players. DIGI's 4G coverage was only 37% 5 years ago vs. Orange's 80% 4G coverage, while now the difference between the two is only marginal. Romania's mobile market still offers huge growth potential as the SIM penetration rate (115% in 2018) and post-paid services (43% in 2019) are significantly lower compared to both EU (123% in 2017) and Hungary (120% and 71% in 2020). As for the geographical comparison, mobile service is one of the most affordable in Romania compared to EU ([please see our graph below](#)) limiting the downside risk of a price war.

Since DIGI refocused on its Romanian mobile telecommunication services in 2014, DIGI's coverage and attractive offerings have allowed them to grow RGUs in this business line in the country from approximately 1.7 million as at December 31, 2013 to approximately 3.4 million as at September 30, 2019. Financially, the overly attractive pricing took its toll on margins and EBITDA margin fell by ca. 10 ppts from 44% in 2014 Q1 to an average of 34%, which started to crawl back on the back of higher RGU's (economies of scale), accounting issue from 2019 (IFRS 16 – ca. 5.5 ppt). Please note that we see similar trend in the Hungarian EBITDA margin as it started to decline as DIGI started to focus again on mobile

services and introduced its cheap mobile offerings in 2019, however in Hungary DIGI does not have the adequate capacity of licenses to operate high quality mobile service.

MOBILE SERVICE FROM QUALITY PERSPECTIVE






	Vodafone	Telekom	Digi Mobil	Orange	Winner
Video experience*	68	55	65	70	Orange
Games experience*	64	67	60	63	Vodafone/ Telekom
Voice App experience*	80	80	77	79	Vodafone/Telekom/Orange
Download speed experience [Mbps]	21	19	15	32	Orange
Upload speed experience [Mbps]	10	9	4	11	Orange
4G availability - % of time	84	81	95	88	DIGI
4G Coverage experience**	6	6	6	7	Orange

* in a 0 -100 points

** in a 0- 10 points

Source: Opensignal

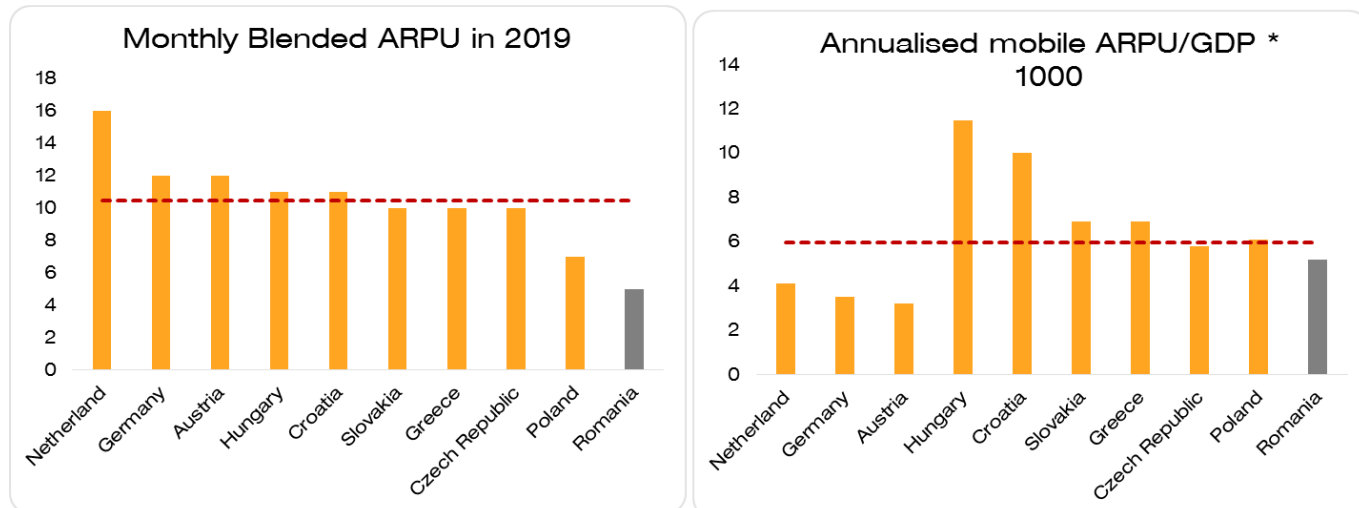
MOBILE SERVICE FROM QUALITY PERSPECTIVE

Mobile Experience Awards, Romania				
 January 2021, Romania Report				
	 Vodafone	 Telekom	 Digi Mobil	 Orange
Video Experience				WINNER
Games Experience	JOINT WINNER	JOINT WINNER		
Voice App Experience	JOINT WINNER	JOINT WINNER		JOINT WINNER
Download Speed Experience				WINNER
Upload Speed Experience				WINNER
4G Availability			WINNER	
4G Coverage Experience				WINNER

Source: Opensignal

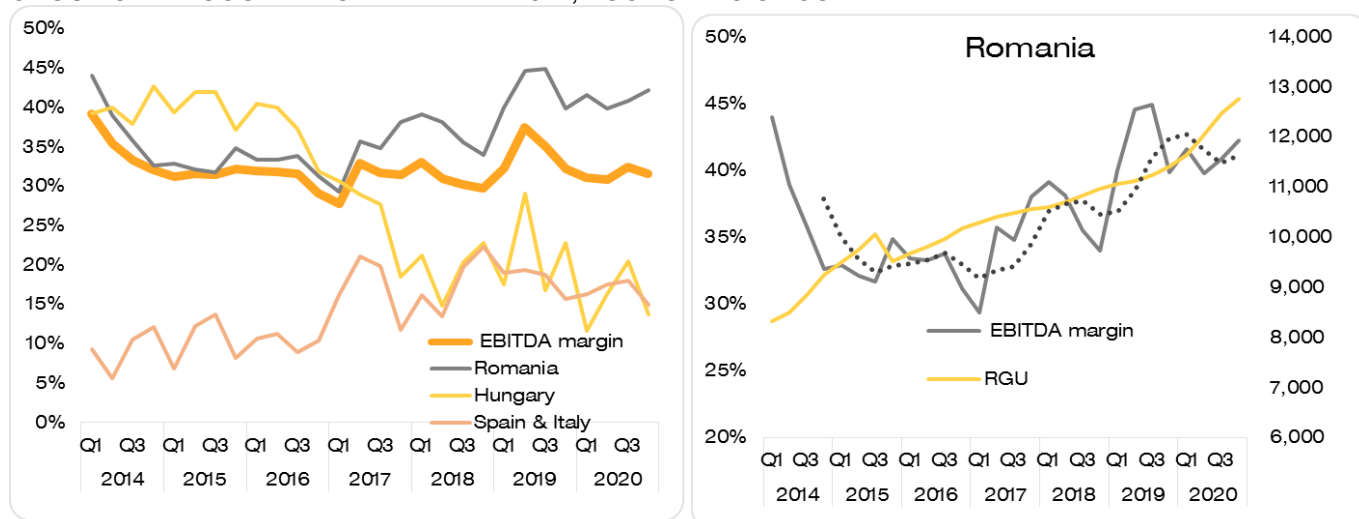
In that report, Opensignal analyzed the mobile experience of our Romanian users across all four national operators — Digi Mobil, Orange, Telekom and Vodafone — over the 90 day period ending 29 November 2020.

ROMANIA'S TELCO MARKET IS ONE OF THE MOST AFFORDABLE IN THE EU



Source: Deutsche Telekom 2019, Eurostat, Concorde

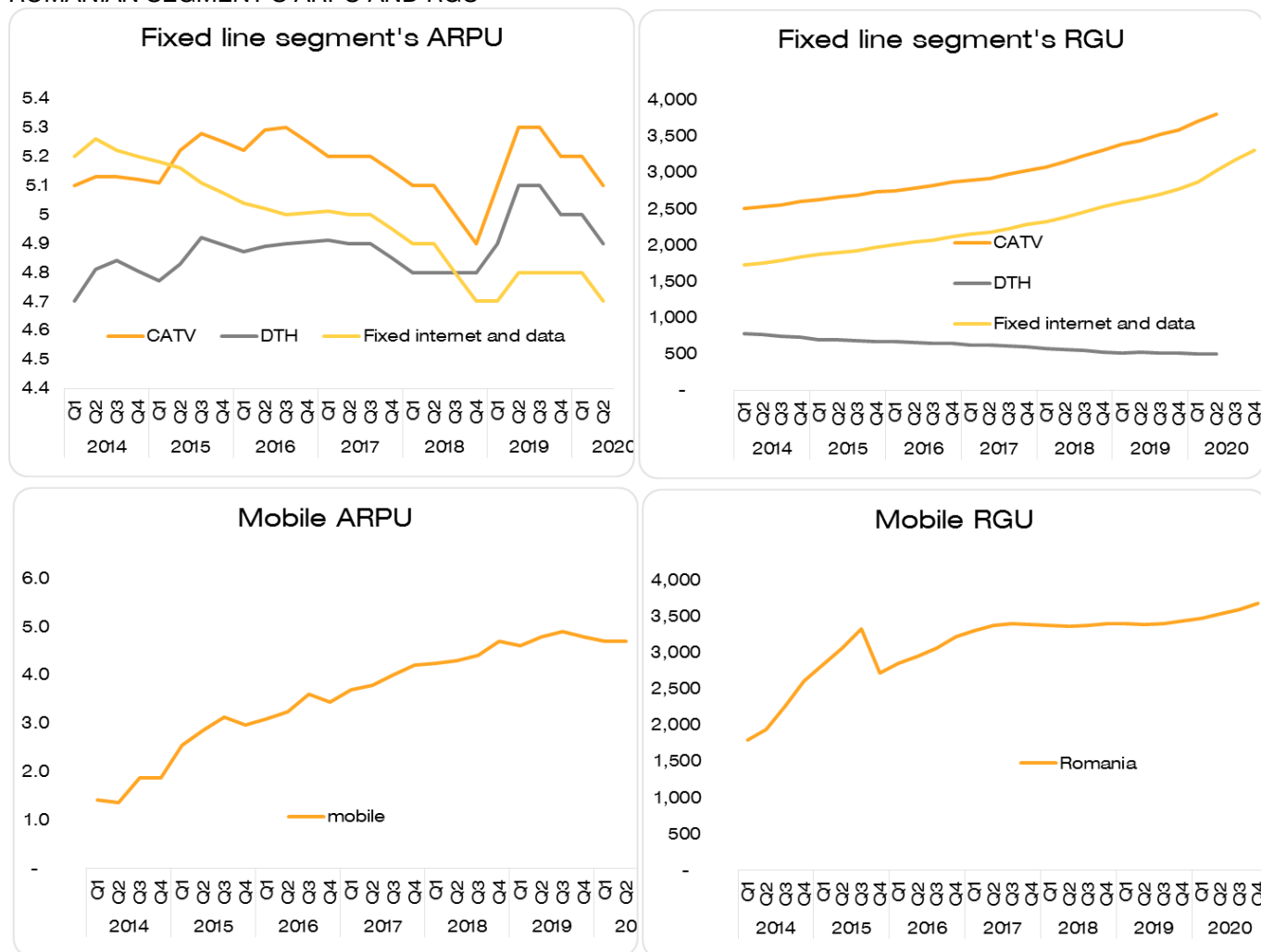
GROUP'S AND COUNTRIES' EBITDA MARGIN, ECONOMIES OF SCALE



Source: DIGI, Concorde

In the end of 2018 the previous government introduced an emergency ordinance with numerous ad hoc measures to fill the budget deficit. Part of that package was a turnover tax (2%) on telco companies that led to a general broad price increase, which has gradually started to ease off lately. DIGI increased the price of its services by 8% on average in order to offset the effect of the newly introduced levy. As we can observe the development of the subscribers (RGU), the price hike did not meaningfully affect the dynamic of RGU's, which conveys us the message that firstly, they do not have cheaper alternative than DIGI, secondly that proportionally monthly fees do not represent that large share in disposable income in Romania.

ROMANIAN SEGMENT'S ARPU AND RGU



Source: DIGI, Concorde

Note: Unfortunately from 2020Q2, DIGI ceased reporting segment ARPU's, now they disclose countries' ARPU only. ARPU stands for (Average Revenue Per User) and RGU is (Revenue Generating Unit)

Going forward we pencil conservatively a moderate low digit percentage increase in ARPU, that will drive a 5-6% growth in RGU in the next three years. As mentioned previously, Romanian mobile prices are one of the lowest in Europe, therefore we do not expect further decline in prices but rather a 1-2% CAGR growth in our forecast period.

ROMANIAN SEGMENT'S ARPU AND RGU

RGU Evolution - Romania [ths]	2018	2019	2020	2021F	2022F	2023F
Cable TV + DTH	3,834	4,097	4,733	4,875	5,021	5,172
Fixed internet and data	2,528	2,775	3,313	3,711	4,007	4,328
Mobile	3,406	3,442	3,680	3,901	4,057	4,219
Fixed telephony	1,188	1,091	1,044	1,013	972	933
Total	10,956	11,405	12,770	13,499	14,058	14,652

Growth

Cable TV + DTH	6%	7%	16%	3%	3%	3%
Fixed internet and data	11%	10%	19%	12%	8%	8%
Mobile	0%	1%	7%	6%	4%	4%
Fixed telephony	-6%	-8%	-4%	-3%	-4%	-4%
Total	4%	4%	12%	6%	4%	4%

effective ARPU Evolution - Romania	2018	2019	2020	2021F	2022F	2023F
Cable TV + DTH	4.8	5.0	5.0	5.1	5.2	5.3
Fixed internet and data	5.9	5.8	5.8	5.9	6.0	6.1
Mobile	4.4	4.7	4.7	4.8	4.9	5.0
Fixed telephony	1.5	1.6	1.6	1.6	1.6	1.5
Total	5.3	5.5	5.1	5.1	5.2	5.2

Growth

Cable TV + DTH	-4%	4%	0%	1%	1%	1%
Fixed internet and data	-5%	-1%	0%	1%	1%	1%
Mobile	9%	8%	0%	2%	2%	2%
Fixed telephony	-1%	4%	0%	-1%	-1%	-1%
Total	2%	4%	-7%	0%	1%	1%

Source: Concorde Estimation

Hungarian operation – Being stopped, focus will shift to Spain

While DIGI's strategic move to enter into the Hungarian mobile market has not played out as it was originally planned, we should not write it off. It is loud and clear that DIGI had not been welcomed in the Hungarian mobile market. We would like to point out that Antenna Hungaria (SOE) owns a 25% stake in Telenor Hungary - one of three incumbent telco operators with the exception that Telenor is left without a fixed line segment. Thus it is not too difficult to see that the government via Telenor could have lost big time, if DIGI were to manage to enter the mobile market and use its enormous base of customers in the fixed line segment to start to cross-sale its mobile service offerings.

Going forward, we see a few strategic directions for DIGI's Hungarian operation. Since there will be no meaningful spectrum auction in the next 10 years, it is impossible to develop a quality mobile service. Thus DIGI will be left with its fixed line segment, which could operate as a standalone business similarly to previous years. This is our base case scenario. Alternatively, it is difficult not to see that Telenor and DIGI could be the perfect match for each other, both of the two could capitalize on the other's business segment via cross-selling. Hungarian PM stressed numerous times that he sees telecom sector as a strategic one and wants to increase the Hungarian ownership in that industry. Therefore Telenor is not up for sale, this leaves us with the other way only, which is Telenor buying DIGI in Hungary. As a confirmation of that thesis, 4IG, a Hungarian IT service provider, made a non-binding offer for DIGI's Hungarian unit.

The aim is to complete the acquisition by September 2021, subject to the due diligence of Digi Hungary and its subsidiaries, signing of a sale and purchase agreement, and necessary competition authority approvals, Digi said. While 4IG seems determined to increase its presence in the telco industry, we note that 4IG cancelled a potential transaction two years ago with Magyar Telekom to acquire T-Systems even though they had signed a non-binding agreement back then as well. So nothing set in stone for now. Last but not least, it is yet unclear how 4IG will finance the HUF 100 – 140 billion transaction with HUF 7 billion cash on hand in the end of 2020 and HUF 5 billion EBITDA, however we are skeptical that it would be the main obstacle of the deal.

Hypothetically, the Hungarian segment's EV could be valued at EUR 200 – 400 million excluding the synergy of the buyer. The lower range is calculated at a multiple of DIGI's current EV/EBITDA (4x), while the upper end represents premium of 50% to that multiple (6x), reflecting possible synergies with cross selling potential. Please note that DIGI purchased Invitel at 6.1x EV/EBITDA multiple back in 2018, however that multiple reflects pre-IFRS 16 accounting. Assuming zero debt level, **Equity should be worth EUR 201 – 402**

million (10– 20 RON per share) in our view. We are inclined to believe that the transaction multiple, if any, would be in the upper end of the range, as Digi's Hungarian network is mostly high-quality optical cable-based, and at the same time DIGI is not under pressure to divest.

Also please note that Hungarian operation's EBITDA fell by 12% in 2020 on the combination of weak FX and the cross-financing of mobile operation in our view, therefore is distorted. To put this into perspective, EBITDA margin of the HU operation was around 40% before the acquisition of Invitel (2018) – which network has been gradually upgrading to optic cable – vs latest EBITDA margin of 27%.

Valuation for the Hungarian operation

[EUR million]	2019	2020
EBITDA*	60.9	54
net debt **	0	0
EV/EBITDA multiple	6.1x	
EV	350	
net debt**	0	
equity	350	
per share [RON]	17.2	

*IFRS 16

**DIGI Group has two outstanding bond that represents ca 80% of its debt the bond is guaranteed by three entities of DIGI - RO,HU,ES operation.

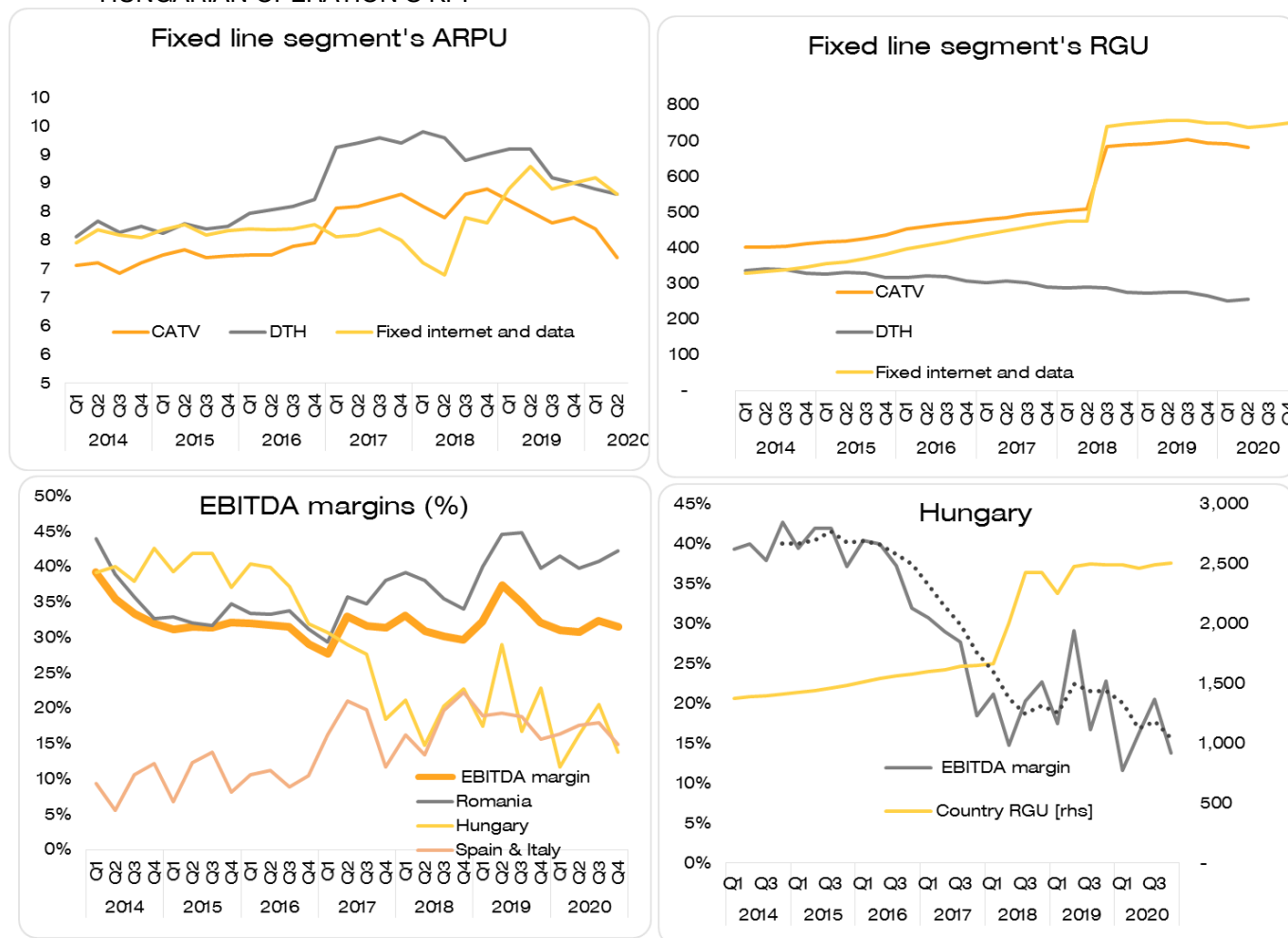
CALCULATION FOR THE EQUITY VALUE OF THE HUNGARIAN SEGMENT

			Per share		
			Valuation multiple	[RON]	vs DIGI's share price
EV/EBITDA	3.5x	201	DIGI's current	9.9	30%
	4.0x	230	MTEL's current	11.3	34%
	5.0x	287		14.1	43%
	6.1x	350	Invitel's transaction: 2018	17.2	52%
	7.0x	402		19.7	60%

Source: Concorde's calculation

Please note that in the Enterprise Value calculation we did not include debt, as the standalone Hungarian operation does not have meaningful debt, therefore the parent company will receive only the equity value. DIGI's debt is structured by two bonds which are guaranteed by the three largest entities, namely the Romanian, Hungarian and Spanish. Assuming that the divestment occurs, DIGI's EBITDA would decrease by 12%, which would imply a gross debt/EBITDA ratio of 2.9x vs 2.6x in 2020, with the proceeds from the divestment at 6.1x EV/EBITDA net debt ratio would fall to 2x.

HUNGARIAN OPERATION'S KPI



Source: DIGI, Concorde

Despite the potential exit from Hungary, we made forecasts for ARPU and RGU, where similarly to the Romanian market, we see higher number of subscribers year by year and low single digit ARPU increase in line with inflation.

ARPU AND RGU EVOLUTION AND FORECAST

RGU Evolution - Hungary [ths]	2016	2017	2018	2019	2020	2021F	2022F	2023F
Pay TV	780	791	965	959	933	952	971	990
Fixed internet and data	428	467	747	750	749	764	779	795
Mobile	14	12	15	99	173	182	191	200
Fixed-line telephony	353	379	694	681	650	631	612	593
Total	1,575	1,649	2,421	2,489	2,505	2,528	2,552	2,578

Growth

Cable TV + DTH	1%	22%	-1%	-3%	2%	2%	2%
Fixed internet and data	9%	60%	0%	0%	2%	2%	2%
Mobile	-14%	25%	560%	75%	5%	5%	5%
Fixed telephony	7%	83%	-2%	-5%	-3%	-3%	-3%
Total	5%	47%	3%	1%	1%	1%	1%

effective ARPU Evolution - Hungary [EUR]	2016	2017	2018	2019	2020	2021F	2022F	2023F
Cable TV + DTH	7.7	8.6	8.0	8.3	8.3	8.5	8.6	8.8
Fixed internet and data	7.4	7.3	6.4	8.6	8.6	8.7	8.8	8.9
Mobile	7.1	7.6	5.6	0.7	0.7	0.7	0.7	0.8
Fixed telephony	1.6	1.4	2.0	2.4	2.4	2.4	2.3	2.3
Total	7.3	7.6	6.6	7.3	6.6	6.6	6.9	7.2

Growth

Cable TV + DTH	11%	-7%	4%	0%	2%	2%	2%
Fixed internet and data	-2%	-12%	33%	0%	1%	1%	1%
Mobile	7%	-27%	-88%	0%	5%	5%	5%
Fixed telephony	-14%	45%	21%	0%	-2%	-2%	-2%
Total	4%	-14%	11%	-9%	0%	4%	4%

Source: Concorde estimation

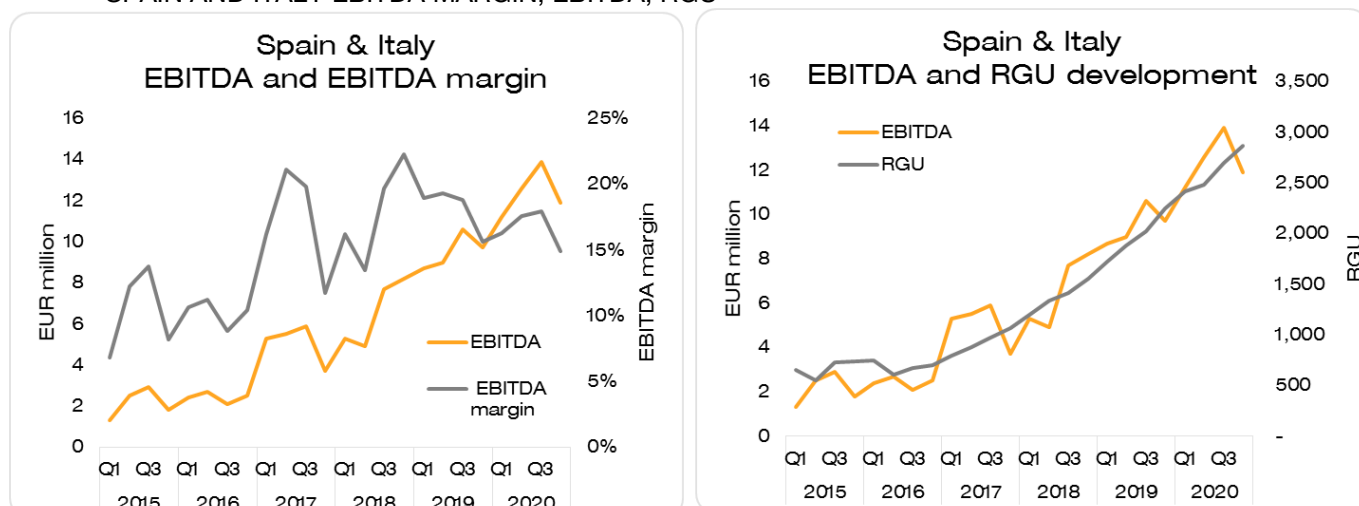
Spain & Italy - the new engines and the focus

DIGI operates in Spain and Italy as an MVNO (Mobile virtual network operator), with an RGU of 2.6 million and 0.25 million respectively, which numbers increased rapidly in the last years (CAGR 29% between 2015 and 2020) representing ca. the group's RGU of 16% in the end of 2020. In those countries, initially DIGI targeted local Romanian communities, but now they have expanded their focus. The two segments are the fastest-growing ones (EBITDA CAGR 44%) in the DIGI Group and we expect them to remain the growth drivers within our forecast period (EBITDA CAGR 9%) reaching ca. EUR 70 million by 2023.

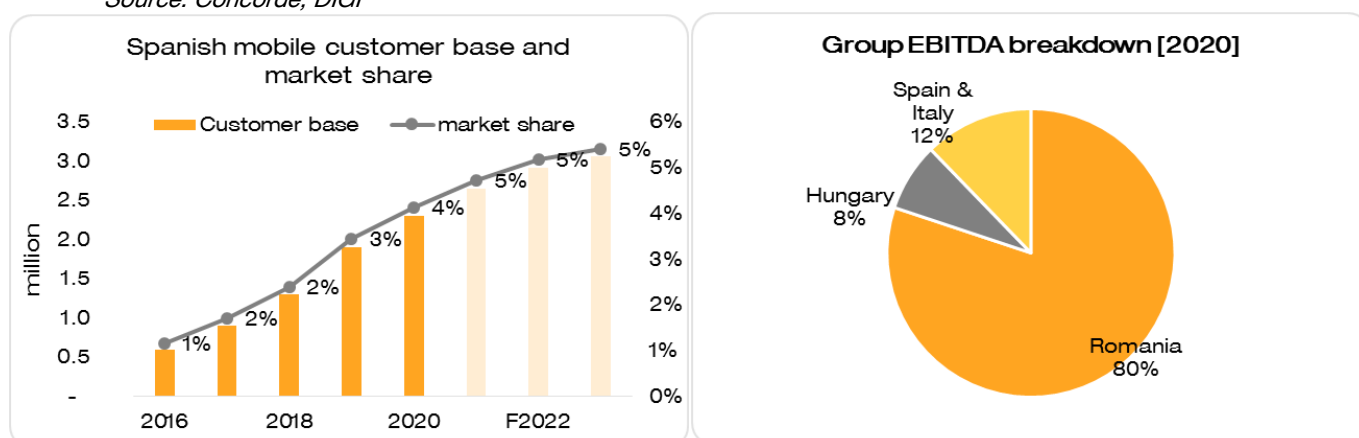
Although Spain and Italy are mature markets, DIGI finds a way to gain market share with its competitive pricing, best-in-class networks and its focused marketing targeting local Romanian communities (in Spain ca. 1.2m and in Italy ca. 0.7m). Similarly to Romania or Hungary, DIGI offers budget solutions in those countries, which may bode well in the current environment in tourist-exposed countries supporting the growth of subscribers.

In contrast to DIGI's business model in Romania and Hungary, this is an asset light business model, meaning that DIGI uses Telefónica's and Vodafone Italy's network in Spain and Italy respectively and pays fix and variable fees to them, while spending relatively low CAPEX mainly on acquiring subscribers. Therefore, this business model has high FCF generation potential in our understating, with the potential risk of network owners not renewing their contracts with DIGI. Since their EBITDA contribution reached 12% (ca. EUR 55 million) last year, we flag that this is a considerable risk. However, DIGI's current MVNO agreement with Telefónica is effective until September 30, 2026, while in Italy the contract with TIM terminated in the end of 2020, but another agreement commenced with Vodafone Italy for 3 years.

SPAIN AND ITALY EBITDA MARGIN, EBITDA, RGU



Source: Concorde, DIGI



Source: Concorde, DIGI

From asset light to asset heavy?

In order to manage the risk of no renewal with network operators, DIGI started to build out its own fixed infrastructure in Spain, which inevitably entails with another CAPEX cycle.

While this segment represents another growth engine for EBITDA, there is a risk of over-priced inorganic growth opportunities in our view. To give an example, in 2018 DIGI acquired Invitel, a Hungarian cable operator with mainly outdated copper network, for 6.1x EV/EBITDA, while DIGI traded at around 4x EV/EBITDA. On the other hand, the larger share of EBITDA comes from a Western European Union country the more chance we see for a potential rerating (DIGI's EV/EBITDA 3.7x vs. WEU telcos trading at least at 5.5x EV/EBITDA.)

Financial Forecast

Incorporating the above mentioned, we see CAGR 5% sales growth mainly driven by the Romanian and Spanish operation, which could support EBITDA margin via economies of scale. In the forecasted time horizon EBITDA will grow 7% per annum on average. What is more striking is the improvement in the bottom line; we see significant increase across our forecast period, mainly thanks to the non-recurring FX losses and lower interest rates on the two bonds (issued last February). Thanks to the latest bond issuances, DIGI refinanced its previous bond at 2.5% and 3.25% coupon rate, the total issuance amounted to EUR 850 million with two separate maturities of 2025 and 2028. Obviously, it is difficult to calculate the FX volatility, therefore we assume rather flat EURRON, RONHUF currency rates.

P&L FORECAST

Income Statement (€ mn)	2016	2017	2018	2019	2020	2021F	2022F	2023F	CAGR	
Revenues	843	917	1,038	1,186	1,281	1,345	1,433	1,509	11%	5%
Other income	-	-	9	-	-	-	-	-		
Operating expenses	756	801	925	1,039	1,112	1,163	1,240	1,307		
Other expenses	7	3	20	2	3	2	2	2		
Operating Profit (EBIT)	79	115	102	145	167	179	190	200		
EBITDA	263	288	314	444	474	511	550	589	15%	7%
Finance income	45	20	0	10	4	-	-	-		
Finance expense	101	56	63	94	146	57	60	61		
Net finance costs	56	36	63	84	143	57	60	61		
Profit before tax	23	79	39	61	24	122	130	138		
Income tax	11	17	21	21	17	20	21	22		
Net profit	12	62	18	41	7	102	109	116	13%	149%
EBITDA margin	31%	31%	30%	37%	37%	38%	38%	39%		
EBITDA growth		10%	9%	42%	7%	8%	8%	7%		

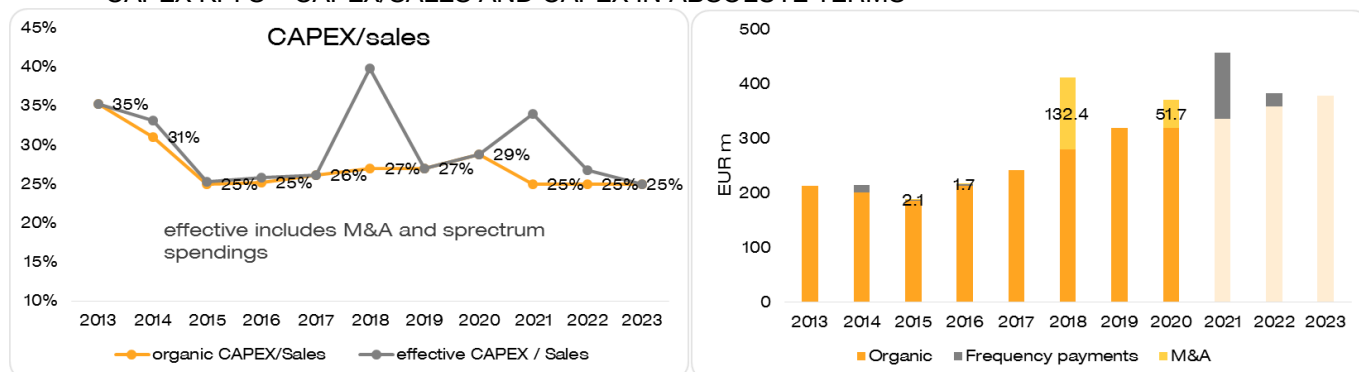
Source: Concorde

CAPEX – Another CAPEX cycle starts

Historically, DIGI has kept the CAPEX/sales ratio around 28%, excluding M&A and spectrum acquisition, which relationship is expected to remain in place going further. One of the main items DIGI has spent a lot on is the **development of fixed and mobile networks** (unfortunately we do not see the breakdown of the two); this segment is responsible for ca. 55% of the CAPEX in the last 8 years. As a result, DIGI has managed to reach almost 84% of homes in Romania via fiber network, up from 55% in 2013. In the last three years DIGI ramped up fiber rollout in Romania to 90,000 / year in which pace, if maintained, by 2022 they could reach 100% thus completing its CAPEX cycle in the fixed line segment, in our view. CAPEX focus then shifts to the mobile segment to further improve the quality of the network.

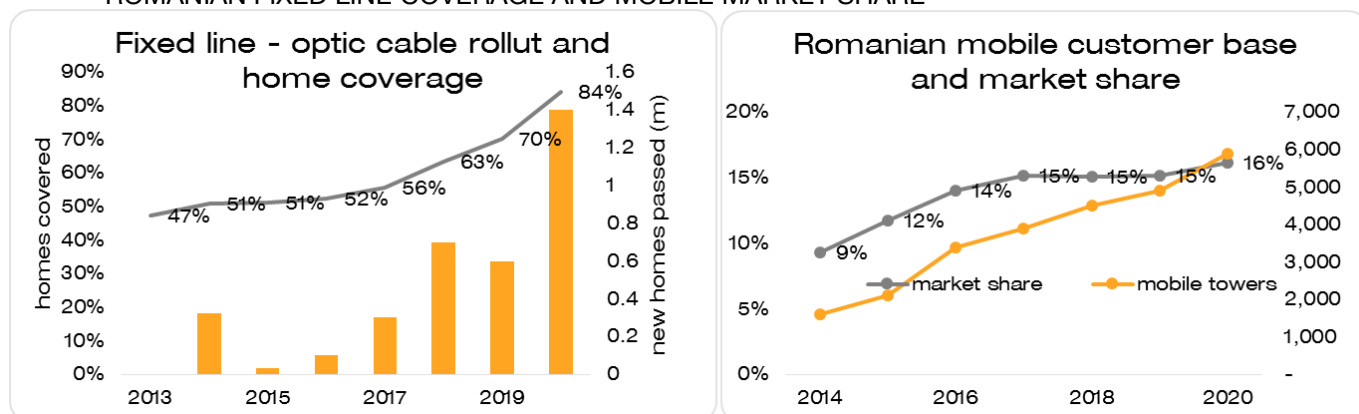
CAPEX to peak in 2021 as DIGI faces 5G auction on top of usual CAPEX, we penciled EUR 456 million implying an unusually high 34% CAPEX/sales ratio, which is in line with the company's guidance of CAPEX, excluding spectrum, of EUR 350 – 400 million. A year later there will be another reason to spend on spectrum, but that will be an extension, which is not an auction and in magnitude is expected to be significantly lower ca. EUR 25 million. Going forward the CAPEX-intensive business model remain unchanged, as DIGI will focus on growth both in Romania, Hungary (?), and a newly launched Spanish fixed line network.

CAPEX KPI'S – CAPEX/SALES AND CAPEX IN ABSOLUTE TERMS



Source: Concorde

ROMANIAN FIXED LINE COVERAGE AND MOBILE MARKET SHARE



Source: Concorde, DIGI, Knoema.com

Frequency payments?

DIGI will need to extend its 2,100 Mhz license in 2022, which was purchased 15 years ago for ca. EUR 27 million. We adjusted this amount by EUR inflation and for the time period, and penciled EUR 25 million for its extension for another 10 years. Apart from that, there will be no major spectrum license extension for DIGI (the next will come only in 2029). However, DIGI is expected to participate in the 5G auction that will be launched in 2Q 2021 for which we forecasted EUR 120 million representing ca. quarter of the full amount regulator expect from the auction.

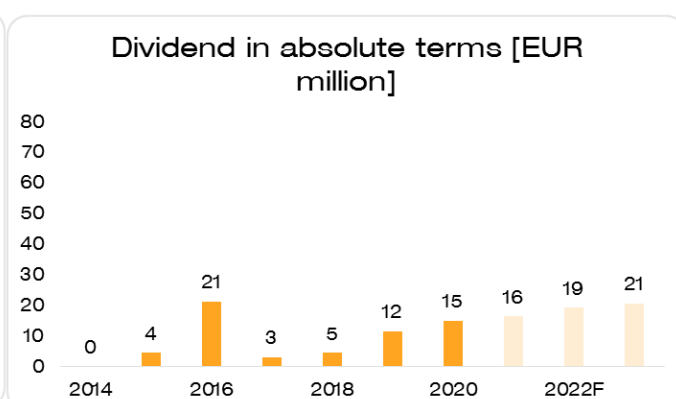
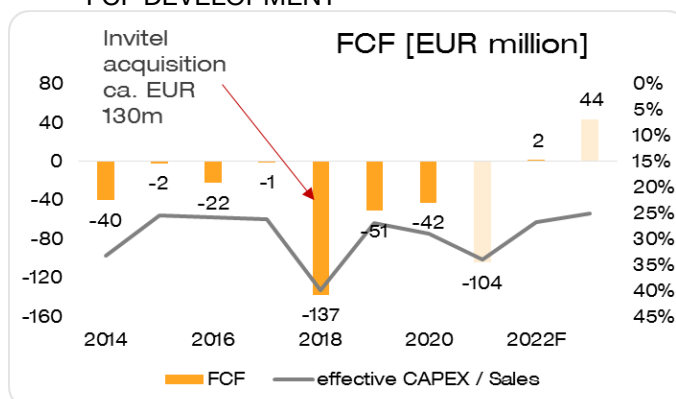
Inorganic growth

Digi does not exclude fueling its growth inorganically. The latest acquisition was a Hungarian fixed line operator Invitel in 2018 at a relatively high multiple in our view. DIGI purchased Invitel's retail portfolio for HUF 43 billion. Allegedly the company had HUF 7 billion EBITDA in 2017, implying a 6.1x EV/EBITDA multiple – assuming no debt. We believe that assuming no debt is not realistic for a telco company, thus the above mentioned valuation multiple should be on the lower bound of the price range. After the transaction, DIGI has effectively increased its market share on the three markets (fixed voice, fixed broadcast, TV), therefore from DIGI's point of view it was an absolutely rational strategy. However, the price tag seems a bit high given that DIGI (4.6x EV/EBITDA) and MTEL (4.2x EV/EBITDA) both trade at significantly lower multiples.

FCFF

Based on our EBITDA trajectory and the CAPEX/sales ratio, we believe that DIGI will turn to FCF neutral in 2022, then FCF positive later on. DIGI emphasized that they intend to remain a growth story and see the market with an entrepreneur mindset, therefore one could not exclude that DIGI will use any arising inorganic growth opportunities.

FCF DEVELOPMENT



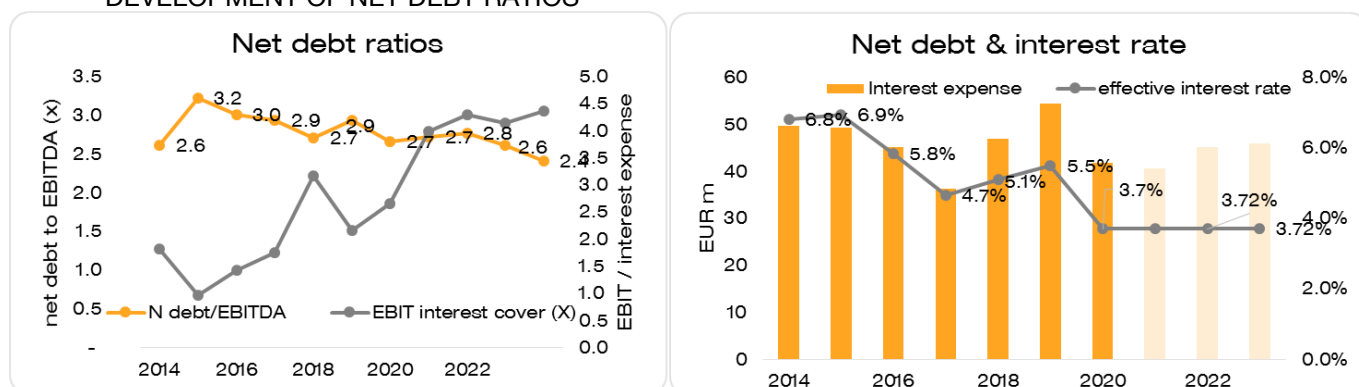
Source: Concorde, DIGI

Net debt

Debt ratio has been gradually moderating since 2015 and stood at 2.7x in the end of 2020. DIGI basically managed to keep interest expense between EUR 40 – 50 million despite the fact that debt level swelled to EUR 1.3 billion in 2020 from EUR 710 million. EBIT coverage improved significantly in the last few years thanks to the growth in EBIT and to the rather flattish interest expenses. Effective interest rate declined to 3.7% in 2020 from 5.5% after the bond refinancing last year in February. Out of the EUR 1.3 billion debt 0.85 billion is related to two bonds that were issued in the beginning of last year with coupons of 2.5% and 3.25% and maturities of 2025 and 2028 respectively. It is a rather interesting question whether DIGI is obliged to redeem the bonds, if one of the guarantors (DIGI Hungarian Operation) is sold. This may involve low single digit million fees (redemption fee and transaction fee) for DIGI, in our view.

In an international context, DIGI's leverage seem rather healthy - DT has 2.7x, Vodafone 2.8x.

DEVELOPMENT OF NET DEBT RATIOS

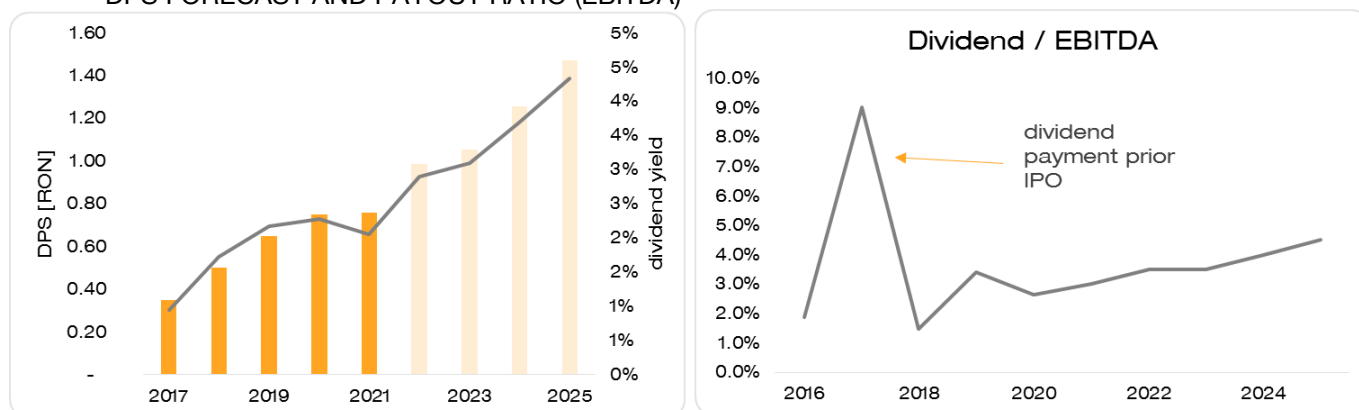


Source: DIGI, Concorde

Dividend policy – not attractive on an international level

Unfortunately the shareholder remuneration is the victim of aggressive expansion (high CAPEX), which is not expected to materially change in the near future. DIGI has no dividend policy, however the company spent ca. 3% of EBITDA in the last three years on payouts, which is expected to gradually increase in our view (MTEL pays ca. 12% of its EBITDA).

DPS FORECAST AND PAYOUT RATIO (EBITDA)



Source: DIGI, Concorde

All in all, with low single digit dividend yield, we are rather skeptical that investors find DIGI's share attractive if there are 5-6% WEU telco companies.

RISK

- **Regulatory risk is one of the major risks.** Enough to remember what occurred in the end of 2018, when government introduced numerous tax measures out of the blue to fill budget deficit, targeting mainly corporates. At that time Telecom operators received a turnover tax of 2%.
- **Currency risk and translation risk.** DIGI generated ca. 16% of the sales in HUF and 61% in RON, while its reporting currency is EUR. Also DIGI's debt structure is hard currency tilted.
- **MVNO contract renewal in Spain and Italy.** As we have mentioned, DIGI uses Telefónica's (2026) and Vodafone's (2023) networks, which contract could easily be terminated without renewal. This is a considerable risk as DIGI could at worst case lose ca. EUR 70 million in EBITDA'23. If things goes sour, DIGI could probably only negotiate a contract with the same partners with worse conditions, or DIGI may end up having to negotiate with other operators.
- **Overpriced aggressive inorganic growth.** Digi does not exclude fueling its growth inorganically. The latest acquisition was a Hungarian fixed line operator Invitel in 2018 at a

relatively high multiple in our view. DIGI purchased Invitel's retail portfolio for HUF 43 billion. Allegedly the company had HUF 7 billion EBITDA in 2017, implying a 6.1x EV/EBITDA multiple – assuming no debt. We believe that assuming no debt is not realistic for a telco company, thus the above mentioned valuation multiple should be on the lower bound of the price range. After the transaction, DIGI has effectively increased its market share on the three markets (fixed voice, fixed broadcast, TV), therefore from DIGI's point of view it was an absolutely rational strategy. However, the price tag seems a bit high given that DIGI (4.6 x EV/EBITDA) and MTEL (4.2x EV/EBITDA) both trade at significantly lower multiples.

- **Risk of migrating optic network underground in Romania.** In the end of 2019, DIGI's optic cable network was ca. 32,500 km out of which 75% was aerial and 25% was underground.
- Lower EBITDA margin or lower RGU growth than our forecast.

Upside

- **MSCI Emerging market inclusion** could help DIGI to have better visibility among investors, potentially mitigating the discount to WEU peers.
- **Better EBITDA margin than our forecast**
- **High implied transaction multiple for the Hungarian DIGI**

Valuation

We set our 12 month ex-dividend target price at 39 RON / share representing an upside of 13% compared to yesterday's closing price.

We use a combination of three approach to assess DIGI's fair value.

1. **Historical valuation** to reflect current investors' sentiment.
2. **Peer Group** – helps to overcome geographical differences, which is useful when a country has the potential to be included in another classification (such as Romanian equity market to EEM).
3. **FCFF** – to address DIGI's growth potential as market leader.

We believe market does not appreciate DIGI's growth story, but once the company reaches maturity in its focus countries (Romania, Spain), higher dividend could be deployed and a rerating could occur. Such a trigger could be:

- Guided lower CAPEX/sales ratio
- Realization of true value of the asset via the potential divestment of Hungarian operation
- Gradually increasing share of EBITDA from Spain

TARGET PRICE BASED ON THE THREE APPROACHES:

Target price	RON/share
DCF	50
Peer Group	39
Own historical EV/EBITDA multiple	35
Median	39

Source: Concorde

Historical valuation

Compared to its own valuation DIGI is not considered cheap, nor expensive, as its median EV/EBITDA in the last 4 years is 4x, while current EV/EBITDA should be around 3.8x in our view. DIGI's IPO valuation was at ca. 5.5x EV/EBITDA, which fairly reflected the company's organic growth potential based on international peers. Despite that, EBITDA grew by 41% (2020/2017 excluding IFRS 16) share price declined significantly improving EV/EBITDA multiple.

HISTORICAL EV/EBITDA FY0



Historical valuation

Median historical EV / EBITDA multiple		4.1x
EBITDA'21	[EUR m]	511
Net debt'21	[EUR m]	1,399
EV	[EUR m]	2,115
Equity	[EUR m]	716
EURRON	4.9	
Equity	[RON bn]	3,509
Per share		35

Source: Concorde

Peer Group

Based on peer group analysis, DIGI is slightly undervalued on EV/EBITDA and markedly on P/E basis. It is also clear that investors prefer telco companies that pay attractive dividend than growth stories.

PEER GROUP COMPARISON

	Country	P/E		EV/EBITDA			Dividend Yield	
		2021	2022	2021	2022	2023	2021	2022
DIGI	Romania	7.8	6.7	4.2	3.8	3.5	2.0	2.2
EMEA Telecoms								
Orange Polska	Poland	29.8	19.6	4.2	4.2	4.0	4.0	5.3
Cyfrowy Polsat	Poland	13.1	12.8	7.0	7.0	6.9	NA	3.7
Netia	Poland	34.3	29.8	4.8	4.8	5.3	8.6	NA
Turkcell	Turkey	6.6	5.8	2.7	2.7	2.2	13.2	10.4
Turk Telekom	Turkey	4.8	4.3	2.4	2.4	2.1	5.8	15.0
OTE	Greece	13.4	12.1	5.3	5.3	5.1	8.0	7.0
O2 Czech Republic	Czech	13.6	14.2	6.9	6.9	7.1	5.3	8.0
Magyar Telekom	Hungary	9.9	9.2	3.9	3.9	3.8	5.3	5.3
MTS	Russia	8.8	8.2	4.7	4.7	4.3	5.8	11.5
Rostelecom	Russia	9.3	8.1	3.8	3.8	3.5	6.9	7.1
Veon	Russia	5.2	4.1	3.0	3.0	2.5	5.9	11.6
Median		9.9	9.2	4.2	4.2	4.0	5.9	7.6
Premium/discount		-21%	-27%	1%	-8%	-11%	-65%	-71%
Developed EU Telecoms								
Vodafone Group	Britain	16.0	13.4	5.6	5.6	5.2	5.9	6.0
Liberty Global	UK	30.6	24.6	7.8	7.8	7.5	NA	NA
Deutsche Telekom	Germany	14.3	12.7	5.9	5.9	5.4	3.7	3.9
Telefonica	Spain	9.9	9.1	5.5	5.5	5.4	8.1	7.9
Orange	France	10.1	9.2	4.6	4.6	4.5	6.9	7.1
Telenor	Norway	16.6	14.7	5.8	5.8	5.7	6.1	6.3
Telia	Sweden	21.9	19.7	7.5	7.5	7.2	5.3	5.4
Koninklijke	Netherlan	22.0	19.6	7.1	7.1	6.9	4.9	4.9
Telecom Italia	Italy	11.2	9.7	4.8	4.8	3.7	2.3	2.3
Elisa	Finland	23.0	22.0	12.9	12.9	12.5	4.1	4.3
Telekom Austria	Austria	10.4	9.7	4.5	4.5	4.2	3.8	4.5
Median		16.3	14.1	5.8	5.8	5.6	5.3	5.4
Premium/discount		-52%	-52%	-28%	-34%	-36%	-62%	-60%

Source: Bloomberg, Concorde

DIGI'S EQUITY VALUE BASED ON EMEA TELCO'S VALUATION MULTIPLES

Dividend yield

	EMEA peer group avg.	DIGI DPS	TP
Dividend yield 2021	6%	0.75	13
Dividend yield 2022	8%	0.80	11

P/E valuation

	P/E	EPS	TP
P/E'21	9.9	4.7	47
PE'22	9.2	5.1	46

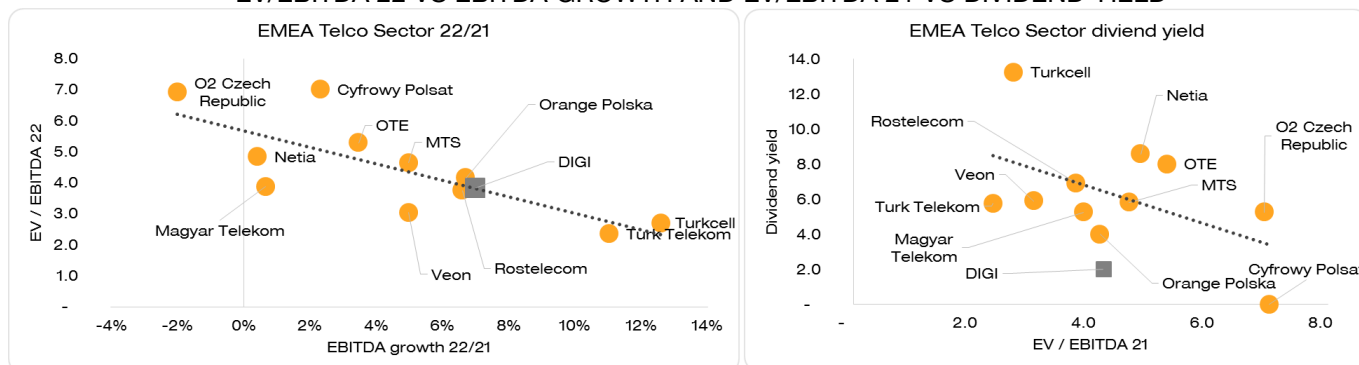
EV/EBITDA valuation

	EUR	EBITDA	EV	Net debt [eoy]	Market cap	Market cap [RON]	TP
EV/EBITDA'21	4.2	511	2,128	1399	729	3,573	36
EV/EBITDA'22	4.2	550	2,289	1414	875	4,286	43

Median **39**

Source: Bloomberg, Concorde

EV/EBITDA'22 VS EBITDA GROWTH AND EV/EBITDA'21 VS DIVIDEND YIELD



Source: Concorde, Bloomberg

FCFF

The key driver in the FCF model and basically behind DIGI's potential to pay more generous dividend is the CAPEX dynamic. Once DIGI decelerate its CAPEX, it will be able to distribute more. With our assumptions – please find below – **FCFF model resulted in a RON 50 per share 12 month target price that reflects DIGI's long term potential**. That price would imply a 5.0x EV/EBITDA'21 that is still below the valuation of the IPO (5.5x).

Our assumptions are the followings:

- Risk free rate of 3% that will gradually increase to 5% in our TV. Please note that we did not use country weights, we apply only the 10y Romanian gov. bond with which we are rather conservative.
- Levered beta of 0.8
- Equity risk premium (ERP) of 5.5%
- Debt risk premium 2%
- Terminal growth of 2% - given DIGI's market position it should not cause any headache to increase ARPU to offset inflation pressure.
- We assume that DIGI will renew its existing frequencies in 2021 (2100 Mhz), 2029 (900 Mhz) and 2030 (3700 MHz & 2600Mhz) for similar amount, only adjusted for inflation (2% pa). Also incorporated EUR 120 million for 5G auction in 2021.
- Beyond the detailed forecast period (2020-25E), we assume that DIGI slowly changes its profile from CAPEX-intensive/high-growth to FCF maximization coupled with lower CAPEX/sales ratio. It would be unwise in our view to use ratios of peers (MTEL has 16%) as ARPU's vary by country (MTEL has a blended mobile ARPU of 10 EUR/month vs. DIGI has 4.8 EUR/month), thus assuming the same subscribers, MTEL would have almost double the sales than DIGI, thus CAPEX/sales is biased in that respect. Nevertheless, we use 26% CAPEX/sales, historically it was 29% (pre-IFRS16) and 33% using the IFRS16 accounting standard in 2019 and 2020. Also we double check that ratio and the 26% CAPEX/sales coincides with 1.0 CAPEX/DD&A, which means that DIGI could renew all of its assets at that level of CAPEX.
- We uses 10% discount on EV to reflect low liquidity and to address the lower voting rights for the class B shares (listed on BVB).

DIGI VALUATION FCFF VALUATION														IFRS16										CAGR 6.1%
EUR million	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	TV										
Sales	624	662	750	842	917	1,038	1,188	1,281	1,345	1,433	1,509	1,582	1,680	1,693										
Sales growth		6.1%	13.3%	12.3%	8.9%	13.2%	14.3%	8.0%	4.9%	6.5%	5.4%	4.8%	4.9%	2.0%										
EBITDA	261	231	237	263	288	325	444	474	511	550	589	622	655	668										
	EBITDA margin	42%	35%	32%	31%	31%	37%	37%	38%	39%	39%	39%	39%	39%										
	growth		-11%	3%	11%	9%	13%	37%	7%	8%	8%	7%	6%	2%										
adj. EBIT	91	48	70	80	115	114	145	167	175	188	201	208	213	226										
	EBIT margin	15%	7%	9%	9%	13%	11%	12%	13%	13%	13%	13%	13%	13%										
	Tax				33%	9%	6%	16%	16%	16%	16%	16%	16%	16%										
NOPLAT					105	107	122	140	147	157	169	174	178	189										
(+) Depreciation	204	190	187	168	172	211	299	307	336	362	388	414	442	442										
(+/-) Working capital																								
CAPEX/SALES	35%	32%	26%	26%	27%	27%	32%	35%	39%	32%	30%	30%	30%	26%										
CAPEX / DD&A	1.06	1.13	1.06	1.29	1.41	1.32	1.29	1.47	1.57	1.28	1.18	1.15	1.12	1.00										
(-) CAPEX including lease payments	216	215	198	217	243	279	385	452	528	464	458	476	496	440										
Spectrum post earnings period													80											
FCFF	-12	-25	-11	-49	34	40	38	-4	-45	55	98	112	45	191										
Discount factor									1.00	0.94	0.88	0.83	0.77	0.72										
DCF									-45	52	87	93	35	2,355										
Enterprise value - Dec 31 2020	2,576																							
DLOO & DLOM	258																							
Net debt + leases [2020 eoy]	1,291																							
Minority																								
Dividend	15																							
Equity value - Dec 31 2020	1,012																							
Number of shares	100																							
Time value adjusted cost of equity	8%																							
12M Target price	49.5																							
EUR/EON	4.9																							
Current price	35																							
Upside/Downside	42%																							
TR Upside/Downside	44%																							

Source: Concorde's forecast

Source: Concorde estimates

Appendix

Per share indicators								
	2016	2017	2018	2019	2020	2021F	2022F	2023F
EPS [RON]		2.8	0.9	2.1	0.4	4.7	5.1	5.6
DPS [RON]		0.4	0.5	0.7	0.8	0.8	0.9	1.0
BVPS [RON]		6.5	7.5	8.3	22.1	26.1	30.4	35.1
Wght. av. no. of shares (th)		100	100	100	100	100	100	100
Valuation								
	2016	2017	2018	2019	2020	2021F	2022F	2023F
P/E		13.1x	30.6x	14.2x	84.9x	7.8x	6.7x	6.1x
CFPS [RON]	-	0.04	- 6.72	- 2.49	- 2.07	- 5.42	- 0.29	1.74
P/BV		5.5x	4.8x	4.7x	4.8x	4.2x	3.9x	3.6x
EV/sales		1.7x	1.4x	1.5x	1.5x	1.6x	1.5x	1.4x
EV/EBITDA		5.5x	4.8x	4.7x	4.8x	4.2x	3.9x	3.6x
div. yield (%)		1%	2%	2%	2%	2%	3%	3%
Capex / sales		26%	27%	40%	27%	29%	34%	27%
Capex/DD&A		1.23	1.42	1.94	1.07	1.21	1.33	1.06
Free cash flow yield (%)		0%	-23%	-8%	-6%	-15%	-1%	5%
Margins (%)								
	2016	2017	2018	2019	2020	2021F	2022F	2023F
EBITDA margin	31%	31%	30%	32%	37%	38%	38%	39%
Operating margin	9%	13%	10%	12%	13%	13%	13%	13%
Net profit margin	1%	7%	2%	3%	1%	7%	7%	8%
Other ratios (%)								
	2016	2017	2018	2019	2020	2021F	2022F	2023F
ROE	15%	64%	12%	25%	2%	20%	18%	17%
ROA	1%	5%	1%	2%	0%	4%	4%	4%
Net debt (debt/debt+equity)	94%	85%	86%	87%	74%	73%	70%	67%
Net debt/EBITDA (x)	2.9x	2.7x	2.9x	2.7x	2.7x	2.8x	2.6x	2.4x
Net debt [EUR million]	773	780	919	1,181	1,291	1,417	1,438	1,422
Interest coverage [EBIT]	1.8x	3.2x	2.2x	2.7x	4.0x	4.3x	4.1x	4.4x
[thrs]								
	2016	2017	2018	2019	2020	2021F	2022F	2023F
RGU								
Total	12,443	13,273	14,926	16,142	18,136	19,317	20,229	21,031
Romania	10,173	10,558	10,956	11,405	12,770	13,499	14,058	14,652
Hungary	1,575	1,649	2,421	2,489	2,505	2,528	2,552	2,578
Spain and Italy	695	1,066	1,549	2,248	2,861	3,290	3,619	3,800
EUR monthly								
	2016	2017	2018	2019	2020	2021F	2022F	2023F
ARPU								
Group's effective ARPU	5.6	5.8	5.8	6.1	5.9	5.8	5.9	6.0
Romania	5.0	5.2	5.3	5.5	5.1	5.1	5.2	5.2
Hungary	7.3	7.6	6.6	7.3	6.6	6.6	6.9	7.2
Spain and Italy	11.3	9.4	8.0	8.0	8.7	8.6	8.5	8.4

RGU Evolution - Romania [ths]	2016	2017	2018	2019	2020	2021F	2022F	2023F
Cable TV + DTH	3,506	3,623	3,834	4,097	4,733	4,875	5,021	5,172
Fixed internet and data	2,115	2,284	2,528	2,775	3,313	3,711	4,007	4,328
Mobile	3,213	3,391	3,406	3,442	3,680	3,901	4,057	4,219
Fixed telephony	1,339	1,260	1,188	1,091	1,044	1,013	972	933
Total	10,173	10,558	10,956	11,405	12,770	13,499	14,058	14,652

Growth

Cable TV + DTH	3%	6%	7%	16%	3%	3%	3%
Fixed internet and data	8%	11%	10%	19%	12%	8%	8%
Mobile	6%	0%	1%	7%	6%	4%	4%
Fixed telephony	-6%	-6%	-8%	-4%	-3%	-4%	-4%
Total	4%	4%	4%	12%	6%	4%	4%

effective ARPU Evolution - Romania	2016	2017	2018	2019	2020	2021F	2022F	2023F
Cable TV + DTH	4.2	5.0	4.8	5.0	5.0	5.1	5.2	5.3
Fixed internet and data	6.4	6.3	5.9	5.8	5.8	5.9	6.0	6.1
Mobile	3.2	4.0	4.4	4.7	4.7	4.8	4.9	5.0
Fixed telephony	1.6	1.5	1.5	1.6	1.6	1.6	1.6	1.5
Total	5.0	5.2	5.3	5.5	5.1	5.1	5.2	5.2

Growth

Cable TV + DTH	20%	-4%	4%	0%	1%	1%	1%
Fixed internet and data	-3%	-5%	-1%	0%	1%	1%	1%
Mobile	28%	9%	8%	0%	2%	2%	2%
Fixed telephony	-1%	-1%	4%	0%	-1%	-1%	-1%
Total	3%	2%	4%	-7%	0%	1%	1%

RGU Evolution - Hungary [ths]	2016	2017	2018	2019	2020	2021F	2022F	2023F
Pay TV	780	791	965	959	933	952	971	990
Fixed internet and data	428	467	747	750	749	764	779	795
Mobile	14	12	15	99	173	182	191	200
Fixed-line telephony	353	379	694	681	650	631	612	593
Total	1,575	1,649	2,421	2,489	2,505	2,528	2,552	2,578

Growth

Cable TV + DTH	1%	22%	-1%	-3%	2%	2%	2%
Fixed internet and data	9%	60%	0%	0%	2%	2%	2%
Mobile	-14%	25%	560%	75%	5%	5%	5%
Fixed telephony	7%	83%	-2%	-5%	-3%	-3%	-3%
Total	5%	47%	3%	1%	1%	1%	1%

effective ARPU Evolution - Hungary	2016	2017	2018	2019	2020	2021F	2022F	2023F
Cable TV + DTH	7.7	8.6	8.0	8.3	8.3	8.5	8.6	8.8
Fixed internet and data	7.4	7.3	6.4	8.6	8.6	8.7	8.8	8.9
Mobile	7.1	7.6	5.6	0.7	0.7	0.7	0.7	0.8
Fixed telephony	1.6	1.4	2.0	2.4	2.4	2.4	2.3	2.3
Total	7.3	7.6	6.6	7.3	6.6	6.6	6.9	7.2

Growth

Cable TV + DTH	11%	-7%	4%	0%	2%	2%	2%
Fixed internet and data	-2%	-12%	33%	0%	1%	1%	1%
Mobile	7%	-27%	-88%	0%	5%	5%	5%
Fixed telephony	-14%	45%	21%	0%	-2%	-2%	-2%
Total	4%	-14%	11%	-9%	0%	4%	4%

Income Statement (€ mn)	2016	2017	2018	2019	2020	2021F	2022F	2023F	CAGR	2015-2020	2020-2023
Revenues	843	917	1,038	1,186	1,281	1,345	1,433	1,509	11%	5%	
Other income	-	-	9	-	-	-	-	-			
Operating expenses	756	801	925	1,039	1,112	1,167	1,243	1,305			
Other expenses	7	3	20	2	3	2	2	2			
Operating Profit (EBIT)	79	115	102	145	167	175	188	201			
EBITDA	263	288	314	444	474	511	550	589	15%	7%	
Finance income	45	20	0	10	4	-	-	-			
Finance expense	101	56	63	94	146	60	64	65			
Net finance costs	56	36	63	84	143	60	64	65			
Profit before tax	23	79	39	61	24	115	123	136			
Income tax	11	17	21	21	17	19	20	22			
Net profit	12	62	18	41	7	97	103	114	13%	148%	
EBITDA margin	31%	31%	30%	37%	37%	38%	38%	39%			
EBITDA growth		10%	9%	42%	7%	8%	8%	7%			

BS [EUR m]	2018	2019	2020	2021F	2022F	2023F
ASSETS						
Non-current assets						
Property, plant and equipment	1,139	1,188	1,562	1,763	1,865	1,936
Right of use assets	-	198	243	243	243	243
Intangible assets	246	269	317	317	317	317
Total non-current assets	1,431	1,707	2,175	2,375	2,477	2,548
Derivative financial assets	33	40	22	22	22	22
Cash and cash equivalents	14	11	11	11	11	11
Total current assets	202	216	225	225	225	225
Total assets	1,633	1,924	2,400	2,601	2,703	2,774
EQUITY AND LIABILITIES						
Treasury shares	- 15	- 17	- 16	- 16	- 16	- 16
Reserves	- 19	- 19	237	237	237	237
Retained earnings	169	189	193	274	363	458
Total equity attributable to equity holders of the company	146	164	425	506	595	690
Non-controlling interest	7	6	26	26	26	26
Total equity	153	170	451	533	621	716
Non-current liabilities	-	-	-	-	-	-
Interest-bearing loans and borrowings, including lease liabilities	716	811	941	941	941	941
Lease liabilities	-	134	163	163	163	163
Other long term liabilities	35	40	36	36	36	36
Total non-current liabilities	818	1,062	1,273	1,273	1,273	1,273
Trade payables and other payables	461	460	491	491	491	491
Interest-bearing loans and borrowings	169	131	87	206	220	196
Lease liabilities	-	65	63	63	63	63
Total current liabilities	662	692	675	795	809	784
Total liabilities	1,480	1,754	1,948	2,068	2,082	2,057
Total equity and liabilities	1,633	1,924	2,400	2,601	2,703	2,774

Source: DIGI, Concorde

Cash flow [EUR m]	2018	2019	2020	2021F	2022F	2023F
PBT	39	61	24	115	123	137
DD&A	211	299	307	336	362	388
Interest expense	47	59	49	48	52	53
CF before working cap.	325	446	481	499	538	577
Interest paid	- 43	- 51	- 45	- 48	- 52	- 53
Income tax paid	- 6	- 9	- 9	- 19	- 20	- 22
Operating cashflow	278	334	409	433	466	502
CAPEX	411	319	371	456	383	377
Investing CF	411	319	371	456	383	377
Dividends	- 3	- 5	- 12	- 15	- 15	- 19
Share buyback	- 1	- 6	- 0	-	-	-
Net borrowing	143	65	89	119	14	25
Financing cost paid	- 3	- 6	- 33	-	-	-
Payment of leased obligation	- 5	- 66	- 81	- 81	- 81	- 81
Financing CF	130	- 19	- 38	23	- 83	- 125
change in cash	- 2	- 4	1	-	-	-
Cash boy	15	14	10	11	11	11
FX	-	-	-	-	-	-
Cash eoy	12	10	11	11	11	11

Source: DIGI, Concorde

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Rating	Trigger
Buy	Total return is expected to exceed 20% in the next 12 months
Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10%-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if covering analyst considers new information may change the valuation materially and if this may take more time.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

Securities prices:

Prices are taken as of the previous day's close on the home market unless otherwise stated.

Valuations and risks:

Analysis of specific risks to set stock target prices highlighted in our investment case(s) are outlined throughout the report. For details of methodologies used to determine our price targets and risks related to the achievement of the targets referred to in the main body of the report or at [Rating Methodology](https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038) on our website. (https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038)

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