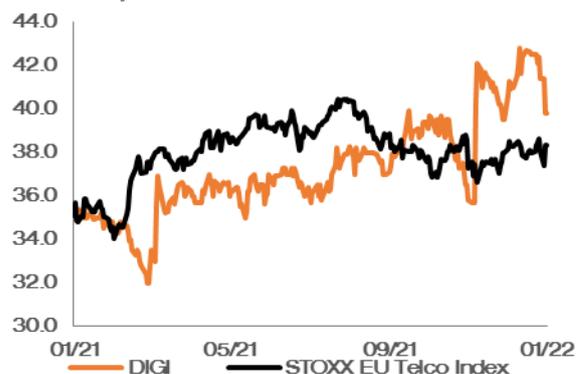


DIGI

Recommendation: BUY (prev: Neutral)

Target price (12M): RON 61 (prev: RON 39)

EUR m	2021F	2022F	2023F
Sales	1,345	1,244	1,326
EBIT	166	184	210
EBITDA	511	505	554
Net profit	89	116	135
EPS [RON]	6.0	7.0	7.2
DPS [RON]	0.8	0.9	1.0
Dividend yield	1.9%	2.1%	2.3%
RGU [million]	19.3	17.8	18.7
ARPU	5.8	5.8	5.9



Share price close as of 28/01/2022	RON 41	Bloomberg	DIGI RO
Market cap. [RON mn/EUR mn]	4,100/828	Reuters	
Daily turnover 12M [EUR million]	0.13	52 week range	RON 35 - 43

Too cheap to ignore!

- **We increase our TP to RON 60 per share and lift recommendation to BUY from Neutral after the huge proceeds lowers debt level significantly.** After 22 years in Hungary, DIGI divested its Hungarian operation for an extraordinary price of EUR 625 million implying a 12x EV/EBITDA (vs DIGI's or MTEL's 3.5x-4.3x EV/EBITDA). To put this amount into perspective, DIGI's pre - announcement market cap was only EUR 700 million. With the transaction DIGI's EV/EBITDA multiple falls back to 3.2x becoming one of the cheapest telco in the EU.
- While we see limited probability for large cash distribution and rather expect DIGI to reduce its debt level and fund its growth strategy, **with the incoming proceeds DIGI has become simply too cheap to ignore.** Also please note that DIGI distributed EUR 15 million (DY: 1.7%) dividend last year only. Therefore even a miniscule portion from the proceeds (EUR 625m) could increase dividend significantly.
- The most value accretive solution would be for DIGI to launch a **large buyback program, in our view!** As an example, DIGI's free float adjusted market cap is ca. EUR 280 m vs. the proceeds from the transaction (EUR 625m). One might even argue for a buyout of the total free float, which could be manageable given the size of the incoming CF, however management indicated its intention to continue its growth strategy with the help of the proceeds.
- **Management is expected to update the Group's strategy in 2022H1** laying out their plan about the Portugal expansion. One may expect that serious amount from the proceeds will steer to Portugal in order to use the recently purchased mobile spectrum licenses.
- **More and more private – takeovers in the EU telco sector.** Public financial market tends to have myopic investment horizon, and does not appreciate high capex – growth stories in the sector, which is the reason behind the takeover wave in the last few years. These companies were typically challenger operators. This tendency might bring momentum buyers for DIGI.

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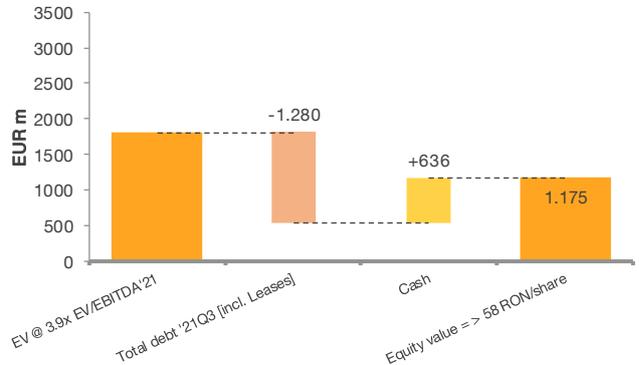
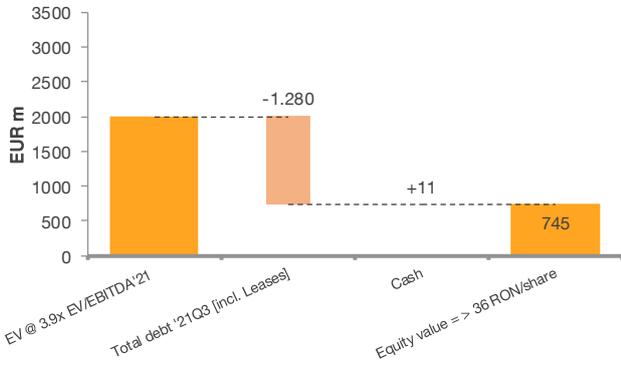
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Investment Thesis in graphs

THE TRANSACTION BOOSTED EQUITY SIGNIFICANTLY

Pre announcement EV with 36 RON / share share price

Cet par change in debt implies jump in Equity value

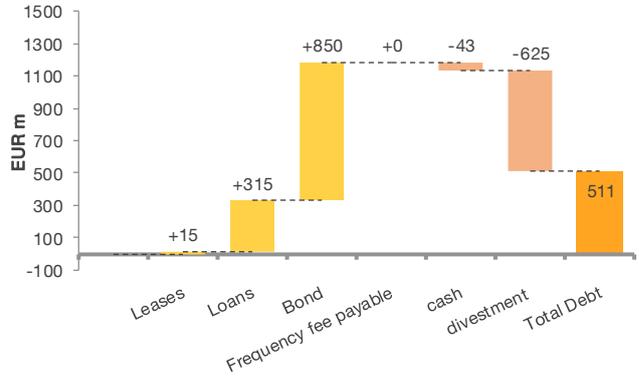
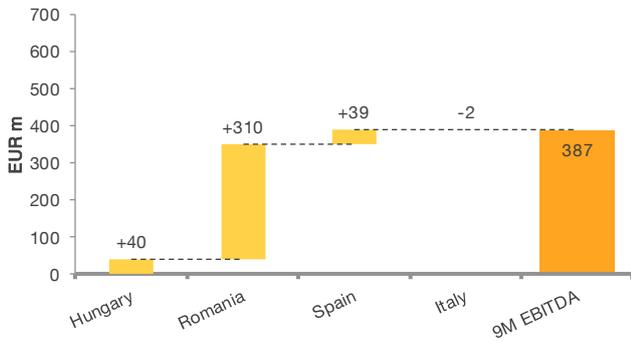


source: Concorde, DIGI

...HOWEVER ONLY 10% OF THE EBITDA IS / WAS RELATED TO HUNGARY ...

9M EBITDA development-Hungary is only 10%

Debt structure and evolution '21Q3

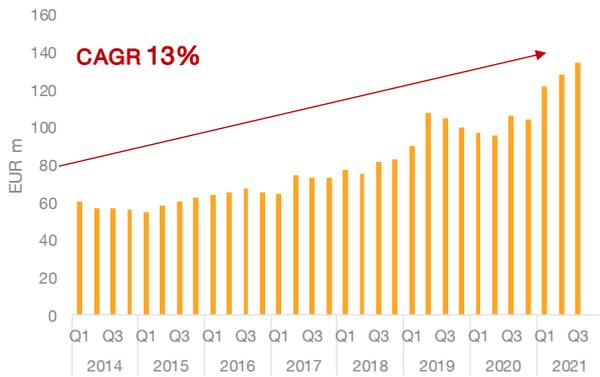


source: Concorde, DIGI

... WHICH IS BASICALLY A SIMILAR AMOUNT TO AN ANNUAL GROWTH IN EBITDA ...

Group's EBITDA Growth in the last 7 years

EV/EBITDA'FY0*



source: Concorde, DIGI

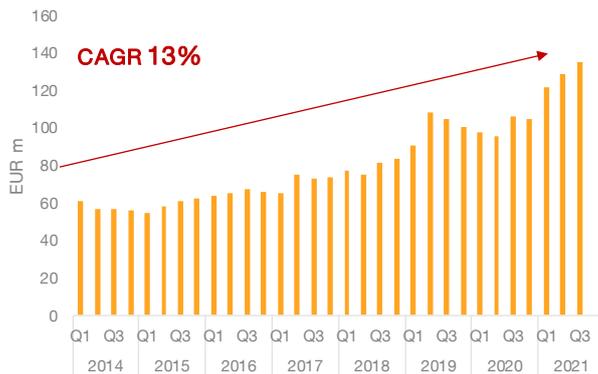
source: Concorde, DIGI

*w/ assumption flattish EBITDA '22 vs '21 - growth will offset the missing EBITDA from HU

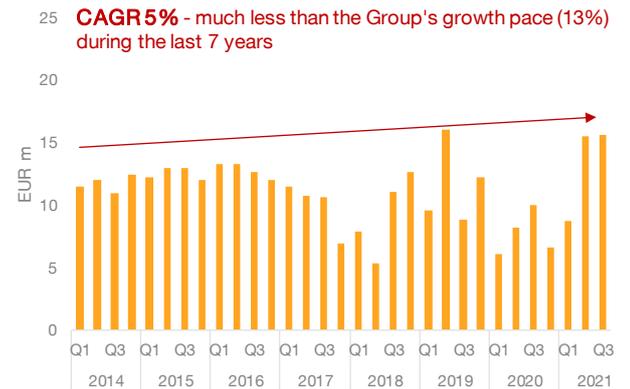
Investment Thesis

- The divestment will not affect group's EBITDA growth.** Hungarian operation grew the slowest amongst the countries in which DIGI operates (7yr CAGR: 5% vs 13% Group) – *please see below*. We continue to see growth to be visible in our earnings estimates (5% 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. With the possible acceleration in Romania as DIGI will acquire more to spectrum than the company previously possessed which is coupled with the previous year's extensive mobile network upgrade (organic CAPEX +23% y-o-y) could create room for further RGU growth. In general, we expect Digi to focus on customer additions vs. ARPU increases in all of its existing markets.

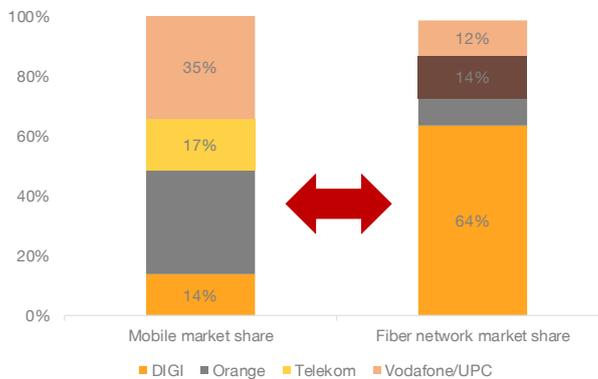
Group's EBITDA Growth in the last 7 years



Hungarian EBITDA development

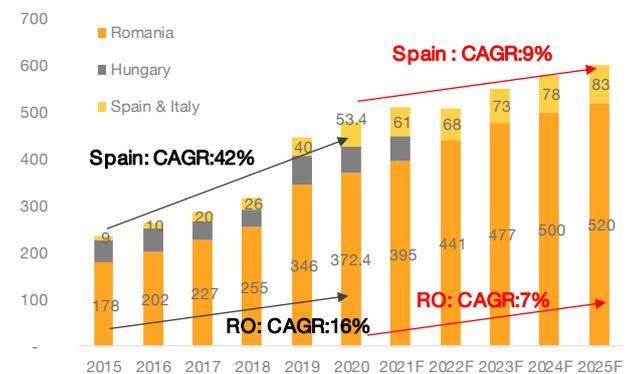


Huge Cross sale potential will help to attract subscribers..



source: Concorde, DIGI

development of EBITDA per country [EUR m]



source: Concorde, DIGI

- 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, and probably in Portugal. Not to mention frequency auctions in Romania (5G in 2022 – we pencil EUR 120 million). Nevertheless, dividend will grow albeit from a low basis implying a sub-sector dividend yield of 3%.
- We admit that DIGI's equity had been relatively cheap even before the transaction, given its modest dividend offering, therefore its equity story had not attracted enough investors. However a few external factors may improve the story:
 - DIGI has become even cheaper:** Pre-announcement DIGI traded at 3.9x EV/EBITDA'21 while after the transaction that multiple fall back to 3.2x EV/EBITDA'21. EV/EBITDA multiple to return to its pre-announcement level equity should increase to 54 RON/share (+30% compared to last day closing price)
 - The cash inflow is so huge that the company could buy back all of the free-float twice.**

3. **Alternatively, if management opts to spend majority of the inflow on inorganic growth they could acquire companies in WEU countries in our view** – Spain, Portugal (lately participated in mobile spectrum auction), and Italy. Therefore the EBITDA coming from WEU countries would grow strengthening the investment case for rerating (as of now WEU share in EBITDA is 12% only).
4. **Hidroelectrica is expected to IPO this year which would draw investors' attention to the Romanian equity market** – Barclays has just initiated a coverage on DIGI.

Realistically, however DIGI's strategy could be combination of the continued growth strategy (enter into the Portugal market) and reward shareholders with one of the above mentioned possibilities, we believe.

- **Interestingly**, companies following similar aggressive growth strategies (challengers) to DIGI are not appreciated in the financial markets (**public markets myopia**), and are prone to be bought out once they become cheap. We have seen more private investor deals and attempted deals in the EU telecom sector over the last 18 months than in the previous ten years. We found examples for such events in the last couple of years:
 - Danish telecom company **TDC** was bought out by a PE-lead consortium at **8x EV/EBITDA** multiple in February 2018.
 - DIGI management indicated that DIGI's Group strategy is similar to **Iliad** (French telco) who was bought out in late 2021 at a multiple of **6.5x EV/EBITDA**
 - In January 2021 **Patrick Drahi** has succeeded in persuading **Altice Europe's** shareholders let him take the company private at a multiple of **6.4x EV/EBITDA**.
 - **Masmovil** Group in Spain. The Group delivered an RGU and EBITDA CAGR of 26% and 58% respectively in 3 years. In 2020 Spain's MasMovil was acquired in €5bn private equity buyout implying a **7.3x EV/EBITDA**
 - **Euskatel** was acquired by **Mamovil** at a multiple of **9.4x EV/EBITDA** in March 2021
 - Telecom Italia was also received a takeover bid from KKR at a multiple of **4.9x EV/EBITDA** in November 2021
 - UK independent telco **TalkTalk** is set to be taken over by a hedge fund and a private equity firm at a multiple of **6.4x EV/EBITDA**
- **DIGI entrance to Portugal market.** Digi paid EUR 67.3mn in total for spectrum in the 900MHz (2*5MHz), 1800MHz (2*5MHz), 2.6GHz (2*5MHz FDD and 25MHz TDD) and 3.6GHz (40MHz) bands, with no undertaking after the auction The auction favored new entrants, on a market with only three players so far. Management promised the publication of the renewed strategy in the first half of 2022. However, what seem to be rationally expected is more capex typically frontloaded in Portugal, and similar value-for-money strategy than in Spain. Also please note that DIGI entered Spain in 2008 and needed 9 years to reach 0.5 million subscribers and which growth has significantly accelerated and now DIGI has almost 3 million subscribers (+2.5 million subscribers in 4 years vs 0.5 million in 9 years). As of now we did not incorporate any revenue nor CAPEX for Portugal, will add once management clarifies its business plans in the country.

Financials

Changes in earnings forecast because of the Hungarian operation's divestment:

1. Although the Hungarian operation's EBITDA is deconsolidated (ca. EUR 54 million in 2020) group EBITDA for 2022 is expected to remain rather flatish compared to 2021 as growth will offset the missing EBITDA from Hungary. Romanian and Spain EBITDA is expected to increase by 10% and 14% y-o-y respectively.
2. EBITDA margin will increase to 43% (IFRS 16) as Romania's share in total EBITDA grows (Ro EBITDA margin is at 47%)
3. Cash inflow of EUR 625 million – which will lower debt level – DIGI probably buy back some of its outstanding bonds / pay back some of its loan facilities

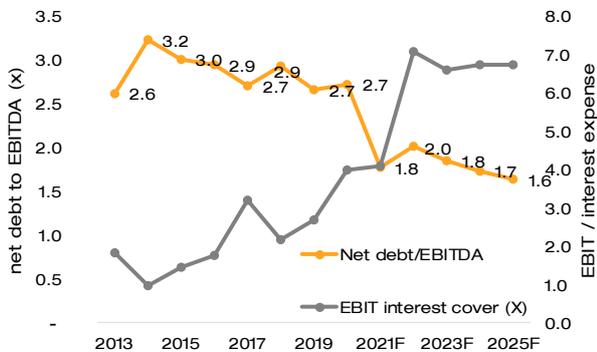
P&L FORECAST

Income Statement (€ mn)	2018	2019	2020	2021F	2022F	2023F	2024F	2025F	2015-2020	2020-2025
Revenues	1,038	1,186	1,281	1,345	1,244	1,326	1,404	1,481	11%	3%
Other income	9	-	-	-	-	-	-	-		
Operating expenses	925	1,039	1,112	1,176	1,058	1,114	1,188	1,269		
Other expenses	20	2	3	2	2	2	2	2		
Operating Profit (EBIT)	102	145	167	166	184	210	213	210		
EBITDA	314	444	474	511	505	554	582	605	15%	5%
Finance income	0	10	4	-	-	-	-	-		
Finance expense	63	94	146	60	45	49	48	46		
Net finance costs	63	84	143	60	45	49	48	46		
Profit before tax	39	61	24	106	138	161	165	163		
Income tax	21	21	17	17	22	26	27	26		
Net profit	18	41	7	89	116	135	138	137	13%	79%
EBITDA margin	30%	37%	37%	38%	41%	42%	41%	41%		
EBITDA growth	9%	42%	7%	8%	-1%	10%	5%	4%		
effective Group ARPU [EUR]	5.8	6.1	5.9	5.8	5.8	5.9	6.0	6.0	2%	0.4%
RGU [ths]	14,926	16,142	18,136	19,317	17,809	18,703	19,575	20,456	10%	2%

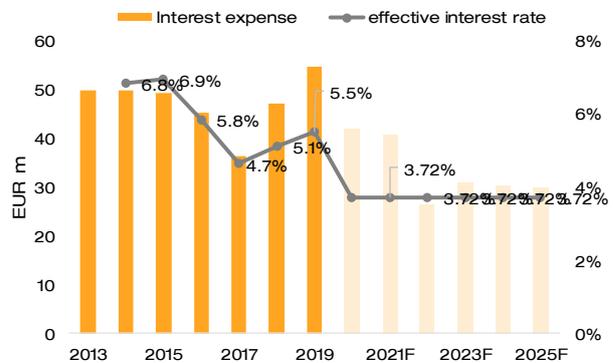
Source: Concorde

HEALTHY LEVERAGE ..

Net debt ratios



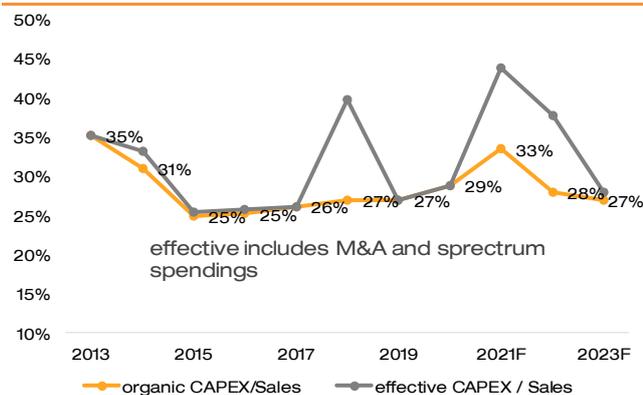
Net debt & interest rate



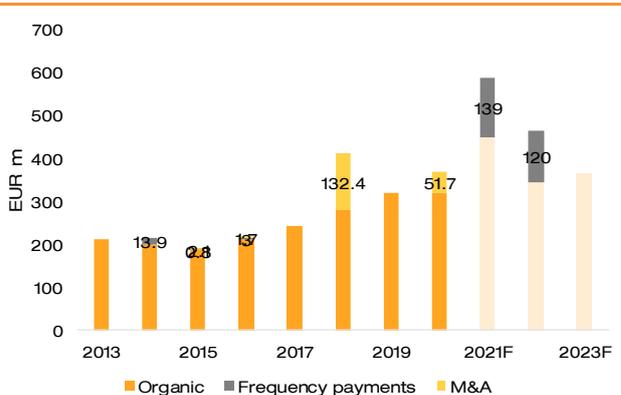
Source: Concorde, DIGI

CAPEX PEAKED IN 2021 AND WILL MODERATE ..

Capex / sales



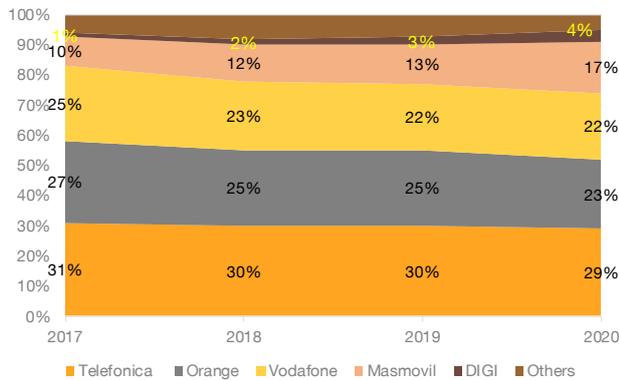
Capex absolute volumes



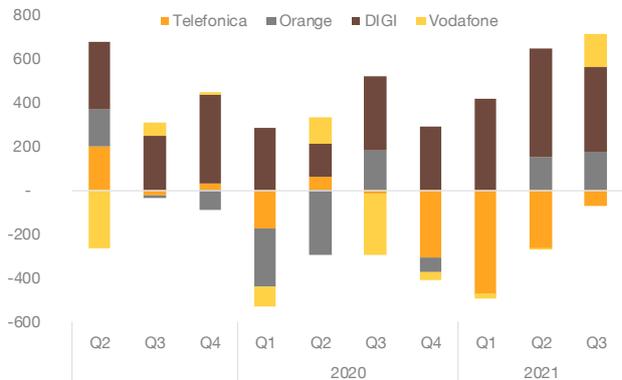
Source: Concorde, DIGI

SPAIN TELCO MARKET

SPAIN mobile market shares (%)

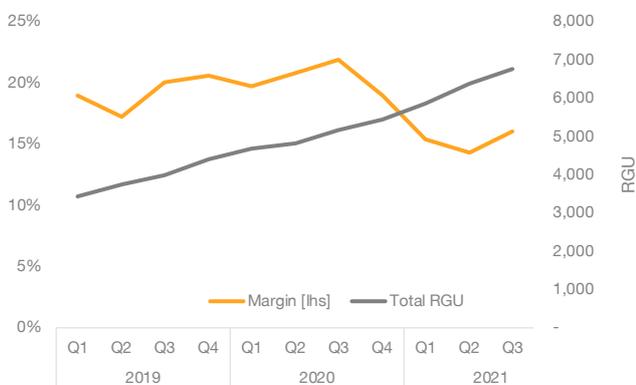


quarterly RGU changes '000 (excl. Masmovil)

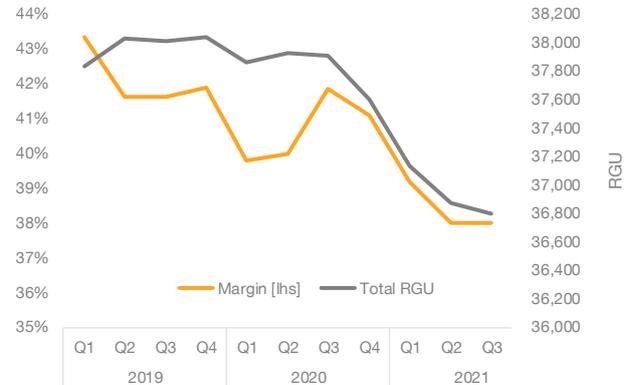


Source: CNMC, Company reports

DIGI's Spain margin & RGU development

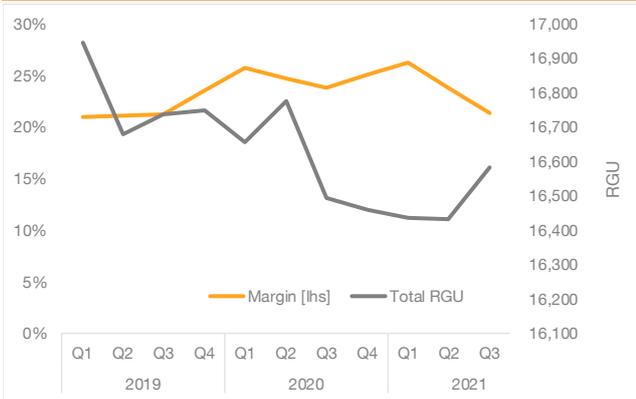


Telefonica's Spain margin & RGU development

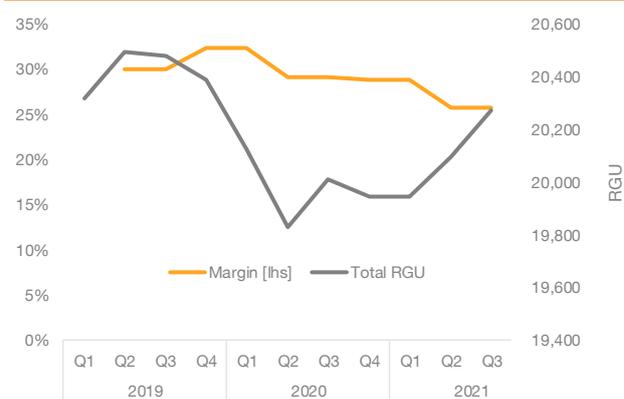


source: Concorde, DIGI, Telefonica

Vodafone's Spain margin & RGU development



Orange's Spain margin & RGU development



source: Concorde, DIGI, Telefonica, Orange, Vodafone

CAPEX – Another cycle starts with Portugal?

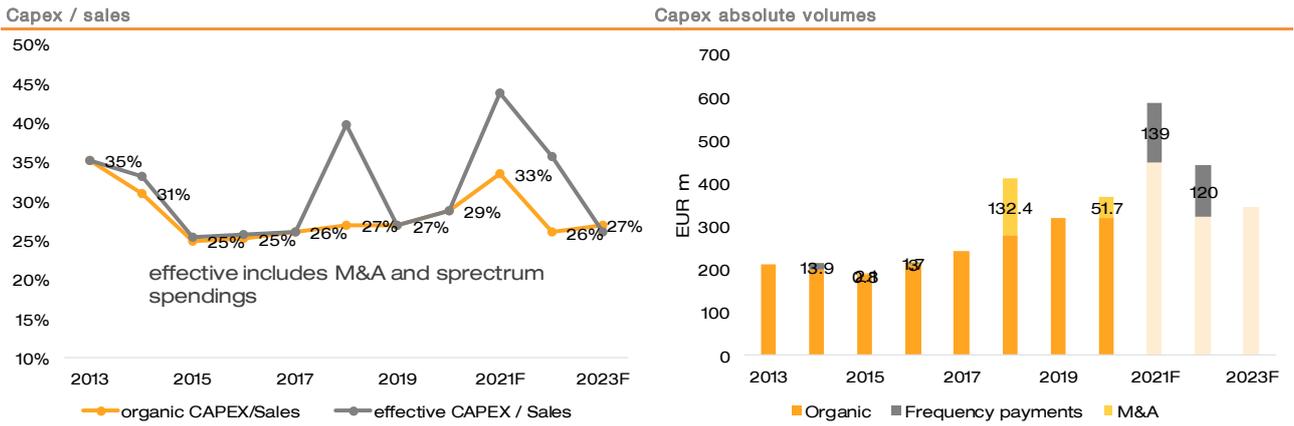
Historically, DIGI has kept the CAPEX/sales ratio around 28%, excluding M&A and spectrum acquisition, which relationship is expected to remain in place going further. One of the main items DIGI has spent a lot on is the **development of fixed and mobile networks** (unfortunately we do not see the breakdown of the two) especially in Romania (*fibre rollout graph below*). For 2021, CAPEX was extraordinarily high both in absolute and relative terms, it is guided to reach EUR 450 m (33% CAPEX/sales) while frequencies also add to the investments in an extent of EUR 140 m (two auction in Romania and one in Portugal). While we do not have a country breakdown we believe that DIGI is upgrading its mobile towers and fibre rollout in Romania in rapid pace in order to capitalize on the new

frequencies as much possible. However fixed rollout in Romania should be completed in the next 12 – 16 months, in our view. *(fibre rollout graph below)*

CAPEX peaked in 2021, for 2022 we still expect high CAPEX but only because of 5G auction which we pencil EUR 120 million and a total CAPEX of EUR 440m. For us the most interesting question is the fall in DIGI's Romanian Capex which will in one hand will be redirected to Portugal / Spain / Italy. We do not expect material dividend hike, but clearly DIGI could afford it.

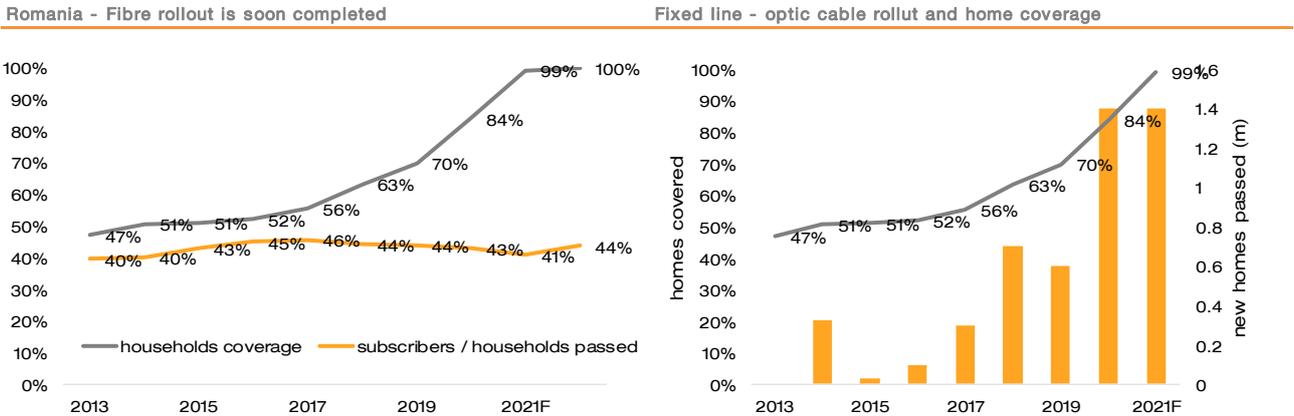
Also please note that DIGI will hold a strategy update on its Portuguese strategy in H1 therefore our CAPEX is subject to change.

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



Source: Concorde, DIGI

ROMANIAN FIXED LINE COVERAGE AND MOBILE MARKET SHARE



source: Concorde, DIGI

Source: Concorde, DIGI, Knoema.com

Inorganic growth

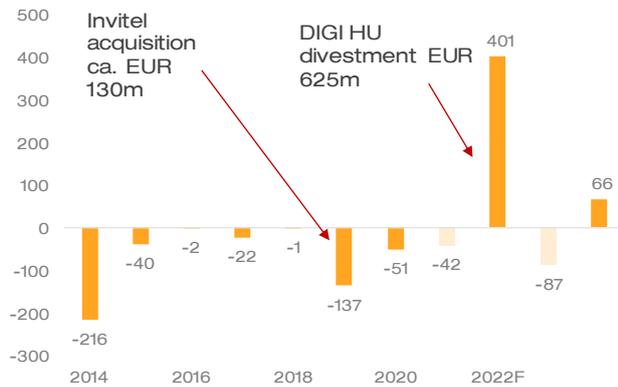
Digi does not exclude fueling its growth inorganically. The latest acquisition was a Hungarian fixed line operator Invitel in 2018 at a relatively high multiple in our view. DIGI purchased Invitel's retail portfolio for HUF 43 billion. Allegedly the company had HUF 7 billion EBITDA in 2017, implying 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 (3.2x EV/EBITDA) and MTEL (3.6x EV/EBITDA) both trade at significantly lower multiples.

FCFF & Dividend

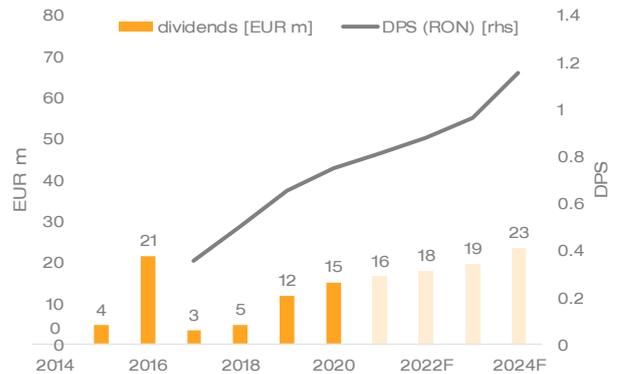
Based on our EBITDA trajectory and the CAPEX/sales ratio, we believe that DIGI will turn FCF neutral in 2023, then FCF positive later on though this is also subject to the CAPEX plan in Portugal. DIGI emphasized that they intend to remain a growth story and see the market with an entrepreneur mindset, therefore one could not exclude that DIGI will use any arising inorganic growth opportunities.

FCF DEVELOPMENT

FCF [EUR million]



Dividend in absolute terms [EUR million] & DPS



Source: Concorde, DIGI

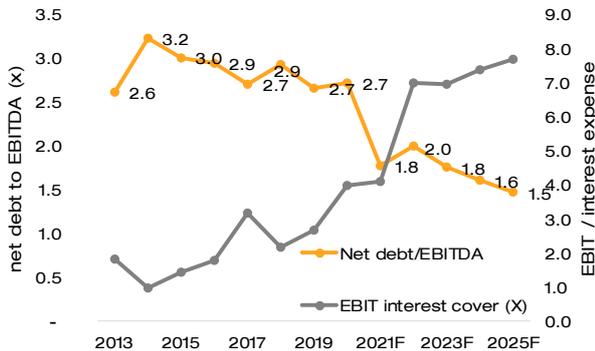
Net debt

Net debt to EBITDA (excluding IFRS 16) ratio has been gradually moderating since 2015 and stood at 2.6x in 2021Q3, with net debt amounting to 1,136 EUR million. This level is expected to increase by ca EUR 120 million fueled by the net amount of quarterly capex and newly acquired spectrum licenses (two in Romania and on in Portugal) and quarterly CF which would lead net debt to 1,250 million RON (excluding leasing) – (w/ leasing it expected to reach RON 1,550 million). Please note that we added the divestment proceeds from HU operation to 2021 cash therefore debt level plunges to EUR 925m.

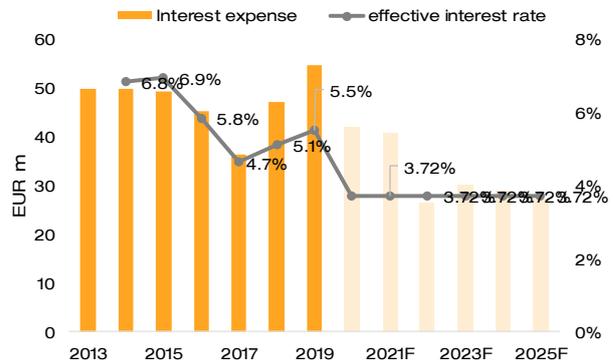
In an international context, DIGI's leverage seem rather healthy - DT has 2.7x, Vodafone 2.8x.

DEVELOPMENT OF NET DEBT RATIOS

Net debt ratios



Net debt & interest rate



Source: Concorde, DIGI

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 Vodafones' (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.

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 and faster RGU growth or larger DPS**
- As we argued in the beginning of the report, **there is a tendency of taking growth Telco's private.** While we are skeptical that the parent company would be bought out however the Spanish subsidiary could receive a bid that is high enough to accept – such as was the case in Hungary.

Valuation

We set our 12 month ex-dividend target price at **61 RON / share representing an upside of 46% 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
- Gradually increasing share of EBITDA from Spain

TARGET PRICE BASED ON THE THREE APPROACHES:

Target price	RON/share
DCF	65
Peer group*	61
Own historical EV/EBITDA multiple	55
Median	61

Source: Concorde

*peer group consisting EMEA countries excluding RUS, TUR

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



source: Concorde, DIGI

HISTORICAL VALUATION

[EUR.m]	
EV/EBITDA	3.9x
EBITDA'22	505
Net debt 'eoy 21	894
EV	1,989

Equity	1,095
Per share [RON per	55

Source: Concorde

Peer Group

Based on peer group analysis, DIGI is undervalued markedly on EV/EBITDA and slightly undervalued on P/E basis. It is also clear that investors prefer telco companies that pay attractive dividend than growth stories. We should exclude Turkish and Russian telcos from the peer group because of the non-stable political environment (plunge of TRY) and because of the escalation of the Ukraine and Russian geopolitics took their toll on valuations of the equities on the two countries and would considerably distort valuation.

PEER GROUP COMPARISON

	Country	P/E			EV/EBITDA			Dividend Yield	
		2021	2022	2023	2021	2022	2023	2021	2022
DIGI	Romania	8.6	6.3	5.7	4.4	3.0	2.7	2.1	2.0
EMEA Telecoms									
Orange Polska	Poland	18.8	16.3	10.7	4.9	4.9	4.4	3.9	5.1
Cyfrowy Polsat	Poland	13.0	12.3	11.2	7.0	7.0	7.4	-	4.0
Turkcell	Turkey	7.1	6.0	6.0	2.5	2.5	2.2	10.7	10.2
Turk Telekom	Turkey	5.2	4.3	3.9	2.4	2.4	1.9	4.9	15.3
OTE	Greece	14.3	13.1	11.1	6.1	6.1	5.9	5.2	5.2
Magyar Telekom	Hungary	10.3	9.0	8.4	3.6	3.6	3.4	4.8	4.8
MTS	Russia	7.4	6.9	5.6	4.0	4.0	3.5	9.9	12.1
Rostelecom	Russia	5.5	5.0	4.0	2.7	2.7	2.3	12.4	11.1
Veon	Russia	4.2	3.5	3.2	2.5	2.5	2.2	6.0	17.0
Median		7.2	6.4	6.0	3.6	3.6	3.4	5.2	10.2
<i>Premium/discount</i>		<i>19%</i>	<i>-2%</i>	<i>-5%</i>	<i>19%</i>	<i>-17%</i>	<i>-18%</i>	<i>-59%</i>	<i>-81%</i>
Median excl. TUR,RUS		13.6	12.7	10.9	5.5	5.5	5.2	4.3	5.0
Developed EU Telecoms									
Vodafone Group	Britain	15.5	13.5	11.5	5.5	5.5	5.2	6.0	6.0
Liberty Global	UK	32.8	34.8	31.6	7.2	7.2	6.8	n.a	n.a
Deutsche Telekom	Germany	13.1	11.4	9.8	5.6	5.6	5.2	4.1	4.5
Telefonica	Spain	12.1	10.8	9.1	5.1	5.1	4.7	7.0	7.2
Orange	France	9.6	8.8	8.8	4.4	4.4	4.5	6.9	7.2
Telenor	Norway	16.5	15.4	14.7	6.0	6.0	5.7	6.5	6.7
Telia	Sweden	20.1	18.4	20.1	6.9	6.9	6.5	5.8	6.4
Koninklijke	Netherlands	18.4	16.3	14.1	7.0	7.0	7.0	4.9	4.9
Telecom Italia	Italy	13.6	11.3	11.6	5.1	5.1	5.1	2.5	2.7
Elisa	Finland	22.1	21.0	19.7	12.7	12.7	12.3	4.2	4.5
	Sweden	21.5	20.6		10.6	10.6	10.3	10.0	6.3
Median		16.0	14.4	11.6	5.8	5.8	5.5	5.8	6.0
<i>Premium/discount</i>		<i>-46%</i>	<i>-56%</i>	<i>-51%</i>	<i>-25%</i>	<i>-47%</i>	<i>-50%</i>	<i>-63%</i>	<i>-67%</i>

Source: Bloomberg, Concorde

EQUITY VALUE DERIVED FROM PEER GROUP EXCL. TUR, RUS

Dividend yield		EMEA peer group avg.	DIGI DPS	TP
Dividend yield 2021	4%		0.75	17
Dividend yield 2022	5%		0.81	16

P/E valuation		P/E	EPS	TP
P/E'21	13.6	4.4	60	
PE'22	12.7	5.7	72	

EV/EBITDA valuation		EUR	EBITDA	EV	Net debt [eoy]	Market cap	Market cap [RON]	TP
EV/EBITDA'21	5.5	511	2,792	1510	1,282	6,282	63	
EV/EBITDA'22	5.5	509	2,781	998	1,783	8,739	87	
Median							61	

Source: Bloomberg, Concorde

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 65 per share 12 month target price that reflects DIGI's long term potential. That price would imply a 4.9x EV/EBITDA'21 that is still below the valuation of the IPO (5.5x).**

Our assumptions are the followings:

- Risk free rate of 4.6% that will gradually decrease as the share of WEU countries earnings in group earnings are expected to grow. In TV we conservatively used 5% risk free rate. Please note that we used country weights (Romania & Spain) to determine the risk-free rate.
- Levered beta of 0.9
- 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.
- 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 countries (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 27% 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 use 10% discount on EV to reflect low liquidity and to address the lower voting rights for the class B shares (listed on BVB). Without that equity value per share would be 77 RON/share.

DIGI VALUATION FCFF VALUATION		IFRS16 ->													CAGR ITV vs. 2022J	
EUR million		2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E		TV
Sales		624	662	750	842	917	1,038	1,186	1,281	1,345	1,244	1,326	1,404	1,481	1,511	5.0%
Sales growth			6.1%	13.3%	12.3%	8.9%	13.2%	14.3%	8.0%	4.9%	-7.5%	6.6%	5.8%	5.5%	2.0%	
EBITDA		261	231	237	263	288	325	444	474	511	505	554	562	605	617	5.1%
EBITDA margin		42%	35%	32%	31%	31%	31%	37%	37%	38%	41%	42%	41%	41%	41%	
EBITDA margin growth			-11%	3%	11%	9%	13%	37%	7%	8%	-1%	10%	5%	4%	2%	
adj. EBIT		91	48	70	80	115	114	145	167	166	184	210	213	210	222	4.8%
EBIT margin		15%	7%	9%	9%	13%	11%	12%	13%	12%	15%	16%	15%	14%	15%	
Tax					-33%	9%	6%	16%	16%	16%	16%	16%	16%	16%	16%	
NOPLAT						105	107	122	140	139	154	176	178	176	186	4.8%
(+) Depreciation		204	190	187	168	172	211	299	307	345	321	344	369	395	395	
(+/-) Working capital																
CAPEX/SALES		35%	32%	26%	26%	27%	27%	27%	29%	42%	36%	26%	26%	26%	27%	
CAPEX / DD&A		1.06	1.13	1.06	1.29	1.41	1.32	1.07	1.21	1.64	1.38	1.00	0.99	0.97	1.0	
(-) CAPEX including lease payments		216	215	198	217	243	279	319	371	566	443	345	365	385	408	
Spectrum post earnings period																
FCFF		-12	-25	-11	-49	34	40	102	77	-81	32	176	182	186	173	
Discount factor										1.00	0.94	0.87	0.81	0.76	0.71	
DCF										-81	30	153	148	141	2,097	
Enterprise value - Dec 31 2021		2,489														
DLOC & DLOM		249	10%													
Net debt + leases [2021 eoy]		894														
Minority																
Dividend		15														
Equity value - Dec 31 2021		1,981														
Number of shares		100														
Time value adjusted cost of equity		9%														
12M Target price		65.2														
EUR/RON		4.9														
Current price		41														
Upside/Downside		61%														
TR Upside/Downside		63%														

Source: Concorde's forecast

Source: Concorde estimates

Appendix

Per share indicators

	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
EPS [RON]	0.9	2.1	0.4	4.6	6.0	7.0	7.2	7.1
DPS [RON]	0.50	0.65	0.75	0.81	0.87	0.96	1.15	1.35
BVPS [RON]	7.5	8.3	22.1	26.0	30.9	36.7	42.6	48.2
Wght. av. no. of shares (th)	94	94	94	95	95	95	95	95

Valuation

	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
P/E	30.6x	14.2x	90.1x	9.0x	6.8x	5.8x	5.7x	5.7x
CFPS [RON]	-6.7	-2.5	-2.1	19.8	-4.3	2.6	3.0	3.3
P/BV	4.7x	4.6x	4.1x	3.3x	3.5x	2.0x	2.9x	2.8x
EV/sales	1.4x	1.5x	1.5x	1.3x	1.4x	0.8x	1.2x	1.1x
EV/EBITDA	4.7x	4.6x	4.1x	3.3x	3.5x	2.0x	2.9x	2.8x
div. yield (%)	2%	2%	2%	2%	2%	2%	3%	3%
Capex / sales	40%	27%	29%	44%	36%	26%	26%	26%
Capex/DD&A	1.95	1.07	1.21	1.71	1.38	1.00	0.99	0.97
Free cash flow yield (%)	-25%	-9%	-6%	50%	-11%	7%	8%	8%

Margins (%)

	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
EBITDA margin	30%	37%	37%	38%	41%	42%	41%	41%
Operating margin	10%	12%	13%	12%	15%	16%	15%	14%
Net profit margin	2%	3%	1%	7%	9%	10%	10%	9%

Other ratios (%)

	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
ROE	12%	25%	2%	18%	20%	20%	17%	15%
ROA	1%	2%	0%	4%	5%	6%	6%	5%
Net debt (debt/debt+equity)	86%	87%	74%	63%	62%	57%	52%	48%
Net debt/EBITDA (x)	2.9x	2.7x	2.7x	1.8x	2.0x	1.8x	1.6x	1.5x
Net debt [EUR million]	919	1,181	1,291	905	1,009	973	931	889
Interest coverage [EBIT]	2.2x	2.7x	4.0x	4.1x	7.0x	7.0x	7.4x	7.7x

[ths]	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
RGU								
Total	14,926	16,142	18,136	19,317	17,809	18,703	19,575	20,456
Romania	10,956	11,405	12,770	13,499	14,058	14,652	15,241	15,862
Hungary	2,421	2,489	2,505	2,528	-	-	-	-
Spain and Italy	1,549	2,248	2,861	3,290	3,751	4,051	4,334	4,594

EUR monthly	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
ARPU								
Group's effective ARPU	5.8	6.1	5.9	5.8	5.8	5.9	6.0	6.0
Romania	5.3	5.5	5.1	4.8	4.8	4.9	4.9	5.0
Hungary	6.6	7.3	6.6	6.1	-	-	-	-
Spain and Italy	8.0	8.0	8.7	8.6	8.5	8.4	8.3	8.3

RGU Evolution - Romania [ths]	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Cable TV + DTH	3,834	4,097	4,733	4,875	5,021	5,172	5,327	5,487
Fixed internet and data	2,528	2,775	3,313	3,711	4,007	4,328	4,588	4,863
Mobile	3,406	3,442	3,680	3,901	4,057	4,219	4,430	4,652
Fixed telephony	1,188	1,091	1,044	1,013	972	933	896	860
Total	10,956	11,405	12,770	13,499	14,058	14,652	15,241	15,861

Growth	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Cable TV + DTH	6%	7%	16%	3%	3%	3%	3%	3%
Fixed internet and data	11%	10%	19%	12%	8%	8%	6%	6%
Mobile	0%	1%	7%	6%	4%	4%	5%	5%
Fixed telephony	-6%	-8%	-4%	-3%	-4%	-4%	-4%	-4%
Total	4%	4%	12%	6%	4%	4%	4%	4%

effective ARPU Evolution - Romania	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Cable TV + DTH	4.8	5.0	5.0	5.1	5.2	5.3	5.3	5.4
Fixed internet and data	5.9	5.8	5.8	5.9	6.0	6.1	6.2	6.2
Mobile	4.4	4.7	4.7	4.8	4.9	5.0	5.1	5.2
Fixed telephony	1.5	1.6	1.6	1.6	1.6	1.5	1.5	1.5
Total	5.3	5.5	5.1	4.8	4.8	4.9	4.9	5.0

Growth	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Cable TV + DTH	-4%	4%	0%	1%	1%	1%	1%	1%
Fixed internet and data	-5%	-1%	0%	1%	1%	1%	1%	1%
Mobile	9%	8%	0%	2%	2%	2%	2%	2%
Fixed telephony	-1%	4%	0%	-1%	-1%	-1%	-1%	-1%
Total	2%	4%	-7%	-7%	1%	1%	1%	1%

RGU Evolution - Hungary [ths]	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Pay TV	965	959	933	952	-	-	-	-
Fixed internet and data	747	750	749	764	-	-	-	-
Mobile	15	99	173	182	-	-	-	-
Fixed-line telephony	694	681	650	631	-	-	-	-
Total	2,421	2,489	2,505	2,528	-	-	-	-

Income Statement (€ mn)	2019	2020	2021F	2022F	2023F	2024F	2025F	CAGR	
								2015-2020	2020-2025
Revenues	1,186	1,281	1,345	1,244	1,326	1,404	1,481	11%	3%
Other income	-	-	-	-	-	-	-		
Operating expenses	1,039	1,112	1,176	1,058	1,114	1,188	1,269		
Other expenses	2	3	2	2	2	2	2		
Operating Profit (EBIT)	145	167	166	184	210	213	210		
EBITDA	444	474	511	505	554	582	605	15%	5%
Finance income	10	4	-	-	-	-	-		
Finance expense	94	146	60	45	49	48	46		
Net finance costs	84	143	60	45	49	48	46		
Profit before tax	61	24	106	138	161	165	163		
Income tax	21	17	17	22	26	27	26		
Net profit	41	7	89	116	135	138	137	13%	79%
EBITDA margin	37%	37%	38%	41%	42%	41%	41%		
EBITDA growth	42%	7%	8%	-1%	10%	5%	4%		
effective Group ARPU [EUR]	6.1	5.9	5.8	5.8	5.9	6.0	6.0	2%	0.4%
RGU [ths]	16,142	18,136	19,317	17,809	18,703	19,575	20,456	10%	2%

BS [EUR m]	2019	2020	2021F	2022F	2023F	2024F	2025F
ASSETS							
Non-current assets							
Property, plant and equipment	1,188	1,562	1,262	1,466	1,547	1,624	1,695
Right of use assets	198	243	243	243	243	243	243
Intangible assets	269	317	317	317	317	317	317
Total non-current assets	1,707	2,175	1,875	2,078	2,159	2,236	2,307
Derivative financial assets	40	22	22	22	22	22	22
Cash and cash equivalents	11	11	11	11	11	11	11
Total current assets	216	225	225	225	225	225	225
Total assets	1,924	2,400	2,100	2,303	2,385	2,462	2,533
EQUITY AND LIABILITIES							
Treasury shares	- 17	- 16	- 16	- 16	- 16	- 16	- 16
Reserves	- 19	237	237	237	237	237	237
Retained earnings	189	193	267	366	484	602	716
Total equity attributable to equity holders of the	164	425	499	598	715	834	948
Non-controlling interest	6	26	38	38	38	38	38
Total equity	170	451	537	637	754	873	986
Non-current liabilities							
Interest-bearing loans and borrowings, includ	811	941	941	941	941	941	941
Lease liabilities	134	163	163	163	163	163	163
Other long term liabilities	40	36	36	36	36	36	36
Total non-current liabilities	1,062	1,273	1,273	1,273	1,273	1,273	1,273
Trade payables and other payables	460	491	491	491	491	491	491
Interest-bearing loans and borrowings	131	87	299	195	231	273	315
Lease liabilities	65	63	63	63	63	63	63
Total current liabilities	692	675	290	394	358	316	274
Total liabilities	1,754	1,948	1,563	1,667	1,631	1,589	1,547
Total equity and liabilities	1,924	2,400	2,100	2,303	2,385	2,462	2,533

Source: DIGI, Concorde

Cash flow [EUR m]	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
PBT	39	61	24	106	138	161	165	163
DD&A	211	299	307	345	321	344	369	395
interest expense	47	59	49	48	33	37	36	34
CF before working cap.	325	446	481	511	493	542	570	593
interest paid	- 43	- 51	- 45	- 48	- 33	- 37	- 36	- 34
income tax paid	- 6	- 9	- 9	- 17	- 22	- 26	- 27	- 26
Operating cashflow	278	334	409	446	437	479	507	532
CAPEX	411	319	371	- 36	443	345	365	385
Investing CF	411	319	371	- 36	443	345	365	385
dividends [EUR m]	- 3	- 5	- 12	- 15	- 16	- 18	- 19	- 23
share buyback	- 1	- 6	- 0	-	-	-	-	-
net borrowing	143	65	89	386	104	36	42	43
financing cost paid	- 3	- 6	- 33	-	-	-	-	-
payment of leased obligation	- 5	- 66	- 81	- 81	- 81	- 81	- 81	- 81
Financing CF	130	- 19	- 38	- 482	6	- 134	- 142	- 147
change in cash	- 2	- 4	1	-	-	-	-	-
Cash boy	15	14	10	11	11	11	11	11
FX	-	-	-	-	-	-	-	-
Cash eo	12	10	11	11	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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