FLASH NOTE

Company Update

Belgium | Telecommunications | Telecom Services

26 October 2018

Jefferies

EQUITY RESEARCH EUROPE

Proximus (PROX BB)

3Q18: Solid Quarter, FY Guidance Nudged Up

HOLD

Bloomberg BRU: PROX BB
Price target €21.10
Price €23.23^

^Prior trading day's closing price unless otherwise noted.

Key Takeaway

PROX reports a solid 3Q overall. A slightly soft Consumer top-line is mostly related to very low mobile device sales, a volatile and low-margin (less relevant) item. KPIs are broadly in-line. Management narrows the FY outlook to 2%-3% underlying EBITDA growth (slightly above consensus of 2.0%). On the possibility of new market entry in Belgian mobile - a key issue for the stock at this time - there is no additional colour.

Proximus reports 3Q18 adj. revenues of €1,441m (-1.2% vs cons), adj. EBITDA of €470m (+0.2% vs cons), capex of €238m (+3.5% vs cons), and FCF (in company definition) of €190m (-1.0% vs cons). In the revenue mix, the domestic business is -1.2% below consensus, with the miss from Consumer mitigated by a slight beat in Enterprise. The Consumer revenue mix shows a relatively low contribution from mobile device sales (-22% y/y, vs 2Q/1Q: -7%/+10% y/y). We think this explains most (probably around 2/3, based on the JEFe revenue mix) of the CBU revenue miss, with the remainder from a more severe legacy voice decline (-6.5% y/y on an easier comparable than in 2Q, vs 2Q: -5.6%). In the results release, management does not further comment on the possibility of a new entrant in Belgian mobile resulting from the rules for the forthcoming spectrum auction. This is of course the main overhang for the stock at the moment, but we reiterate our view expressed in *Benelux telcos: Estimate refresh; upgrading Proximus to Hold* (18 July 2018) that (a) actual new entry remains an uncertain prospect, and (b) if new entry materialises, mobile-centric OBEL might be more vulnerable than PROX. For a detailed comparison of results to consensus and estimates, please see page 2.

2018 guidance for underlying EBITDA is narrowed to 'growth between 2%-3%' vs prior 'slight growth'. This is mildly above consensus at currently +2.0% y/y. Guidance for 'nearly stable' underlying domestic revenue (cons implies +0.6% y/y) and capex around €1bn excluding spectrum cost (cons: €1.01bn) is reiterated. Management also reiterates the commitment to pay a stable gross dividend of € over 2017-19.

Divisional comments: Mobile. Mobile retail service revenue growth across CBU and EBU improves to -0.3% y/y (2Q: -0.9%; 1Q: -2.2%), supported by the annualisation of roam-like-home regulation. CBU MSR declines -0.9% y/y (vs 2Q: -1.4%) and EBU +0.9% y/y (vs 2Q: +0.9%). CBU mobile postpaid intake (paying subs, excluding Internet Everywhere SIMs) is solid in a seasonal context at +18k (2Q: +32k; 3Q17: +10k) with postpaid churn slightly higher (15.8% annualised, 2Q: 14.2%; 3Q17: 16.3%). EBU mobile subscriber intake (excluding m2m and Internet Everywhere SIMs) is in-line with recent trends at +11k (2Q: +11k, 3Q17: +10k). CBU postpaid ARPU declines -0.9% y/y (2Q: -1.1%) and EBU ARPU declines -4.1% y/y (2Q: -4.1% y/y).

Divisional comments: Fixed. Management characterises the broadband and TV market as "competitive" in 3Q. In CBU, voice line losses remain high at -16k (2Q: -18k, 3Q17: -15k). Broadband intake of +9k looks solid (2Q: +7k, 3Q17: +8k). EBU voice lines losses remain under structural pressure at -10k (2Q: -8k, 3Q17: -10k). Broadband intake is stable at -1k (2Q: -1k, 3Q17: -2k). CBU voice ARPU declines -3.4% y/y (2Q: -2.9%), and broadband ARPU grows +1.9% y/y (2Q: +2.1%). EBU voice ARPU declines -0.6% y/y (2Q: -0.7%), and broadband ARPU grows +1.8% y/y (2Q: +0.6%).

Ulrich Rathe, CFA *
Equity Analyst
44 (0) 20 7029 8286 urathe@jefferies.com
Martin Hammerschmidt *
Equity Analyst
+44 (0) 20 7029 8758 mhammerschmidt@jefferies.com
Jerry Dellis *
Equity Analyst
+44 (0) 20 7029 8517 jdellis@jefferies.com
* Jefferies International Limited

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Table 1: Proximus 3Q18 results vs estimates and consensus

(in EUR m)	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Act vs JEFe	Q3 18e	Act vs cons	Q3 18 cons
Revenue (reported)	**1,463**	**1,478**	**1,441**	**1,454**	**1,441**	**-1.3%**	**1,460**	**-1.2%**	**1,459**
Incidentals (incl non-recurring)	-22	-1	0	0	0	-	0	-	0
Revenue (adjusted)	**1,441**	**1,477**	**1,441**	**1,454**	**1,441**	**-1.3%**	**1,460**	**-1.2%**	**1,459**
Revenue growth (adjusted)	-3.1%	-0.9%	-0.1%	2.6%	0.0%	-130bp	1.3%	-120bp	1.2%
EBITDA (reported)	**468**	**431**	**443**	**460**	**457**	**-3.3%**	**472**	**1.6%**	**450**
Incidentals (incl non-recurring)	-4	14	11	33	13	-	0	-8.3%	12
EBITDA (adjusted)	**464**	**445**	**454**	**493**	**470**	**-0.5%**	**472**	**0.2%**	**469**
EBITDA margin (adjusted)	32.2%	30.1%	31.5%	33.9%	32.6%	30bp	32.4%	50bp	32.1%
D&A	-239	-247	-250	-261	-252	-1.4%	-255	2.0%	-247
EBIT (reported)	**229**	**184**	**193**	**199**	**205**	**-5.5%**	**217**	**-2.8%**	**211**
NI (reported)	**140**	**137**	**124**	**129**	**135**	**-2.6%**	**139**	**4.7%**	**129**
Capex	205	385	221	238	238	1.9%	234	3.5%	230
FCF (company definition)	**267**	**-187**	**78**	**80**	**190**	**-27.8%**	**263**	**-1.0%**	**192**
Net debt	**1,733**	**2,088**	**2,002**	**2,276**	**2,089**	**3.8%**	**2,013**	**1.1%**	**2,067**

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 5 October 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Table 2: Proximus 3Q18 results vs estimates and consensus – adj. revenue breakdown

(in EUR m)	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Act vs JEFe	Q3 18e	Act vs cons	Q3 18 cons
Consumer	729	734	731	725	715	-1.8%	728	-1.9%	729
Enterprise	340	369	351	351	347	1.5%	342	1.2%	343
Wholesale	56	51	48	50	53	-0.4%	53	-3.6%	55
Other	-20	-17	-8	-13	-21	16.7%	-18	23.5%	-17
Domestic	1,105	1,137	1,121	1,114	1,095	-1.0%	1,106	-1.2%	1,108
Carrier Service	336	339	319	340	347	-2.0%	354	1.2%	343
Revenue (adjusted)	**1,441**	**1,477**	**1,441**	**1,454**	**1,441**	**-1.3%**	**1,460**	**-1.2%**	**1,459**

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 5 October 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Table 3: Proximus 3Q18 results vs estimates and consensus – adj. EBITDA breakdown

(in EUR m)	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Act vs JEFe	Q3 18e	Act vs cons	Q3 18 cons
Domestic	426	408	419	454	431	-0.2%	432	-0.2%	432
Carrier Service	38	37	35	39	39	-4.2%	41	0.0%	39
EBITDA (adjusted)	**464**	**445**	**454**	**493**	**470**	**-0.5%**	**472**	**0.2%**	**469**

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 5 October 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Table 4: Proximus 3Q18 KPI results vs estimates and consensus

(in EUR m)	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Act vs JEFe	Q3 18e	Act vs cons	Q3 18 cons
Net adds ('000s)									
CBU - fixed voice	-15	-12	-16	-18	-16	45.5%	-11	6.7%	-15
CBU - broadband	8	18	14	7	9	80.0%	5	-10.0%	10
CBU - TV	10	17	15	9	11	10.0%	10	-8.3%	12
CBU - mobile (paying subscribers)	-79	0	-19	-5	-9	-77.5%	-40		
CBU - mobile postpaid (excl Internet Everywhere)	10	8	12	32	18	80.0%	10	20.0%	15
CBU - mobile prepaid	-89	-8	-31	-37	-26	-48.0%	-50	-7.1%	-28
EBU - fixed voice	-10	-9	-13	-8	-10	0.0%	-10	0.0%	-10
EBU - broadband	-2	0	-1	-1	-1	-	0	-	0
EBU - mobile (excl Internet Everywhere, excl M2M)	10	13	11	11	11	10.0%	10	10.0%	10
ARPUs (€)									
CBU - fixed voice	20.1	19.9	20.4	19.8	19.4				
- % y/y	-5.2%	-4.3%	-3.1%	-2.9%	-3.5%				
CBU - broadband	28.4	28.4	28.9	28.9	29.0				
- % y/y	0.0%	0.4%	1.7%	2.1%	2.1%				
CBU - TV	20.9	21.0	20.9	20.9	20.8				
- % y/y	1.0%	-0.5%	0.2%	0.5%	-0.5%				
CBU - mobile	23.1	22.8	22.4	23.0	23.3				
- % y/y	1.8%	2.2%	1.8%	1.8%	0.9%				
EBU - fixed voice	29.9	29.8	31.0	30.3	29.7				
- % y/y	-2.6%	-3.2%	-0.6%	-0.7%	-0.7%				
EBU - broadband	43.2	43.4	43.3	43.5	44.0				
- % y/y	-1.4%	0.2%	1.2%	0.5%	1.9%				
EBU - mobile	26.3	26.1	24.8	25.5	25.2				
- % y/y	-6.4%	-5.1%	-7.8%	-4.1%	-4.2%				

Source: Jefferies estimates, company data, company-collated consensus (as circulated on 5 October 2018). Note: Estimates, results and consensus shown are under IAS18 accounting standards.

Ulrich Rathe, CFA, Equity Analyst, 44 (0) 20 7029 8286, urathe@jefferies.com

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Company Description

Proximus

Proximus is the Belgian telecommunication incumbent, offering a full-service portfolio in its home market. The company is also a major provider of international carrier services, in particular to mobile operators. Moreover, Proximus provides ICT services under the Telindus brand. Proximus operates in the Luxembourg mobile market through its subsidiary Tango. The Belgian state holds 53.5% of outstanding shares.

Company Valuation/Risks

Proximus

Our PT of €21.1 is derived from a DCF-based SOTP valuation and corresponds to 5.4x 2019e EV/EBITDA. Risks to the upside include potential execution failures at OBEL's cable project, better mobile data monetisation, better upsell momentum, a more benign pricing and promotional development in the market, and even better cost control. To the downside, we mention OBEL's cable resale project, regulation, still high mobile market price levels, potential new market entry in mobile, and fixed broadband competition from cable.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published	October 26, 2018 , 02:21 ET.
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Ulrich Rathe, CFA, Equity Analyst, 44 (0) 20 7029 8286, urathe@jefferies.com

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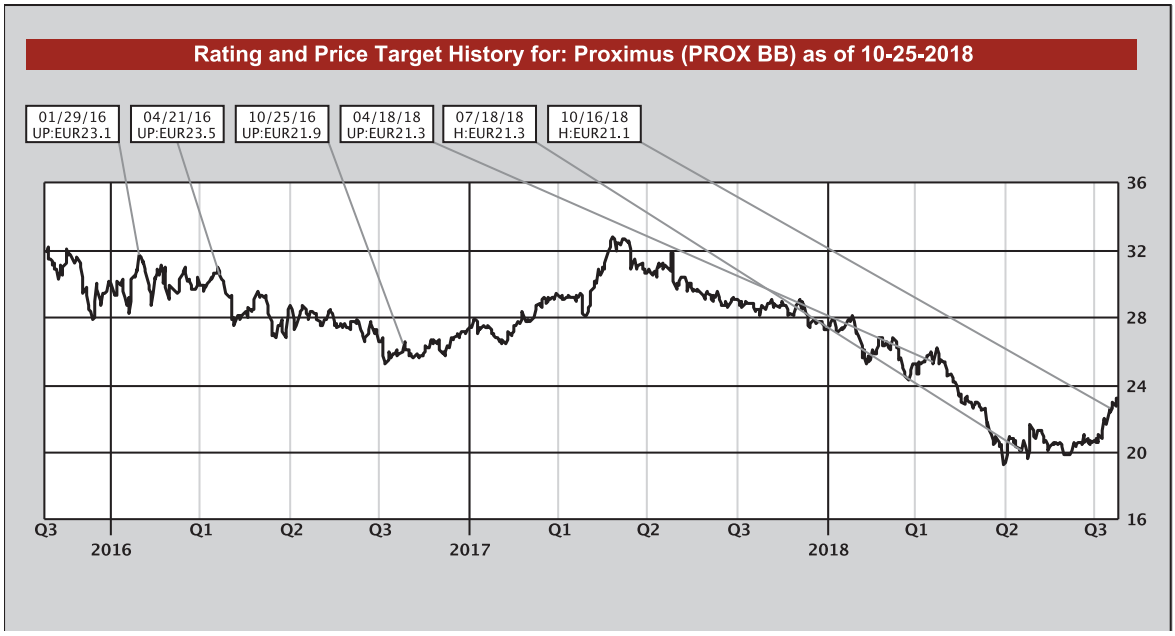

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Ulrich Rathe, CFA, Equity Analyst, 44 (0) 20 7029 8286, urathe@jefferies.com

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Ulrich Rathe, CFA, Equity Analyst, 44 (0) 20 7029 8286, urathe@jefferies.com

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Ulrich Rathe, CFA, Equity Analyst, 44 (0) 20 7029 8286, urathe@jefferies.com

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