

# NextGenTel

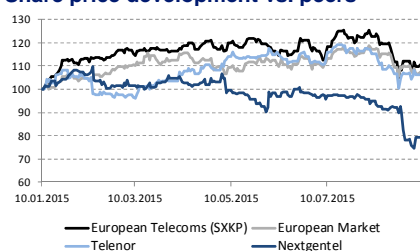
**BUY**

 Initiation of coverage  
18 September 2015

 Share Price: NOK 30  
Target: NOK 40

Share data	17.09.2015
Sector	IT - Software
Reuters/Bloomberg	NGT.OL/NO
Risk rating	Medium
Outstanding shares	23,283
Market cap (NOKm)	698,495
Net interest bearing debt (NOKm)	-193713
Enterprise value (NOKm)	504,782
Free float	59 %
Average volume	9,875
High/low 52w (NOK)	46/ 34
Rel. Perf 3/6/12	-13/ -19/ -19
Abs. Perf. 3/6/12	-19/ -22/ -23
High/low 52w (NOK)	46/ 28
Rel. Perf 3/6/12	-24/ -10/ -26
Abs. Perf. 3/6/12	-29/ -9/ -22

## Share price development vs. peers



## Niche telco provider at an attractive valuation

We initiate coverage on Norwegian telecom services provider NextGenTel (NGT) with a BUY rating and target price of NOK 40. NGT is the leading IP telephony (VoIP) and third largest broadband provider in Norway, and also offer mobile and TV services. We expect fiber broadband and mobile to offset declining earnings in other segments. In addition, the dividend yield of 10% provides solid downside support for the shares. Both on a stand-alone basis and together with anticipated structural changes we see upside to current valuation.

Despite modest growth outlook for xDSL broadband and VoIP from switch to super-fast fiber broadband and mobile, we expect the incumbent technologies to remain important. Continued technical improvements in xDSL, and too costly fiber deployment in several places support demand for xDSL.

**NGT is well positioned for growth in fiber broadband:** The company has added 2,400 fiber customers following a regulatory change with access to Telenor's network in January 2015. The network represents approx. 60,000 customers and is expanding at a rate of 25-30,000 p.a. "Ekoplanen" in 1H16 might open up for access to other networks as well. In addition, the Norwegian Communications Authority (NKOM)'s current margin squeeze test to evaluate whether Telenor sets the right price to MNVOs could improve the long term margin.

**Structural measures likely:** A sale of NGT could add much strength to GET and ICE's operations in our view. A sale to TeliaSonera or a consolidation with a Swedish player are other optionalities.

**Attractive valuation and dividend yield:** Except from low liquidity and muted outlook for VoIP and xDSL we see few reasons that explain the large discount to the sector. Our blended historical multiple/DCF target price of NOK 40 implies a c. 30% upside.

Key figures (USDm)	2012	2013	2014	2015E	2016E	2017E	3Q14	3Q15E
Revenues	409	1,247	1,272	1,245	1,252	1,263	317	311
EBITDA	133	249	308	251	247	249	76	62
EBIT	97	95	148	98	97	98	37	25
Net Income	81	59	72	67	68	67	25	16
EPS	3.50	2.49	3.00	2.86	2.94	2.89	1.05	0.72
DPS	0.00	2.00	3.25	3.39	2.94	2.89		
Revenue growth	0 %	205 %	2 %	-2 %	1 %	1 %	-3 %	-2 %
EBITDA margin	32 %	20 %	24 %	20 %	20 %	20 %	24 %	20 %
EBIT margin	24 %	8 %	12 %	8 %	8 %	8 %	12 %	8 %
DPS	0.0	2.0	3.3	3.4	2.9	2.9		
EV/Sales	2.2	0.7	0.7	0.7	0.7	0.7		
EV/EBITDA	6.7	3.6	2.9	3.6	3.6	3.6		
EV/EBIT	9.2	9.4	6.0	9.1	9.2	9.1		
P/E	8.6	12.0	10.0	10.5	10.2	10.4		

Source: Company/Fondsfinans Research

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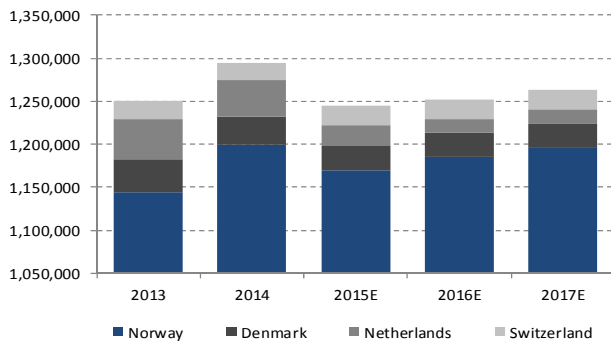
## Investment case

NextGenTel (NGT) is a result of an acquisition of Nextgentel by Telio Group in 2013 offering IP telephony (VoIP), broadband, mobile and TV to customers and businesses. Telio Group changed company name to NextGenTel in May 2014. The main part of revenues is in Norway and we expect the exposure to International markets to be reduced.

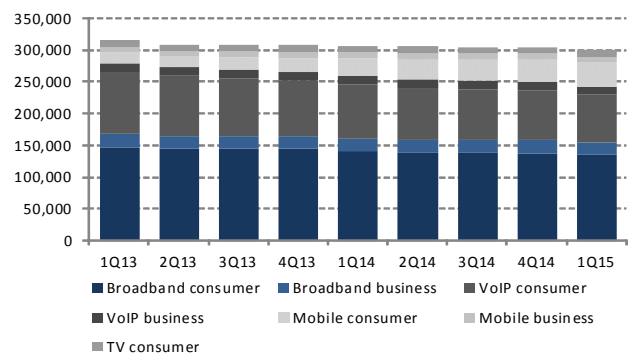


Source: NGT/ Fondsfinsans Research

### Revenues per segment

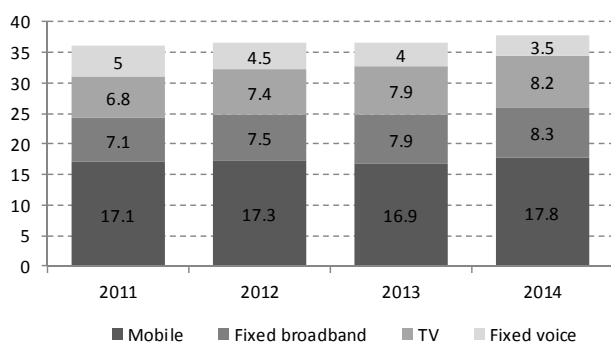


### Broadband and VoIP is the main part of NGT's customers in Norway

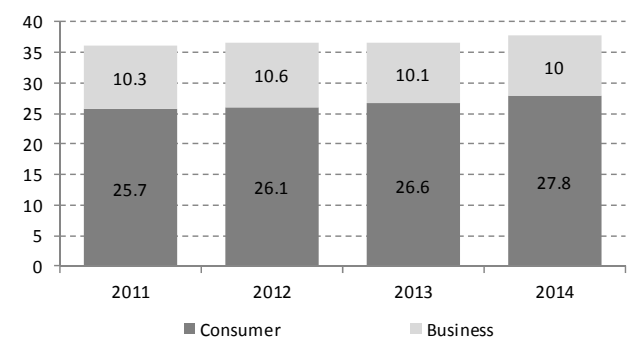


Source: NGT/ Fondsfinsans Research

### Norwegian telecom and TV market (NOK bn)



### Norwegian telecom and TV market (NOK bn)



Source: Telenor/ Fondsfinsans Research

The growth outlook is modest. We expect fiber broadband and mobile to offset declining earnings in other segments and perhaps grow the EPS long term.

Despite VoIP experience a steady decline from the switch to mobile, it has proved more resilient than declining landline subscriptions. xDSL broadband is impacted by the growth of super-fast fiber broadband but we expect the technology to remain important due to technical improvements such as G-fast

and too high cost of fiber deployment in several places.

Factors which could give additional upside to our valuation:

- **Access to Telenor's fiber network:** NGT has added 2,400 fiber customers following a regulatory change in January 2015 that opened up for access to Telenor's network. The network represents approx. 60,000 customers, expanding at a rate of 25-30,000 p.a.

There is an ongoing debate if other regional players may need to open their fiber network as well which could expand NGT's fiber market. "Ekomplanen" in 1H16 in Norway might open up for this.

Norwegian Communications Authority (NKOM)'s current margin squeeze- test to evaluate whether Telenor sets the right price to MNVOs could improve long term margin for NGT. This should only give marginal near-term effect to estimates due to few customers.

- **The company aims to increase its market share in Multi unit dwellings (MDU), an estimated market of 600,000 end-customers.** NGT's largest competitors are GET/TDC and Canal Digital/Telenor. The competitors bundle their TV and broadband offering, while NGT offers them separately as well.
- **Improved mobile solution for the businesses segment:** NGT will launch an improved communication platform with a switchboard (IN). The company targets to cross sell products to a larger degree.
- **Increased broadband prices:** Cable companies might eventually increase broadband prices to offset the disruption from Internet-TV.
- **The "Reiten-committee" could open up for an increased customer base by 2017.** Energy companies in Norway may have to report their broadband operations separately from 2017, which should clarify that many are struggling with profitability. One solution could be to keep the infrastructure and sell customers/operations to NGT.

### Structural amendments likely

NGT's customer base in broadband, VoIP and mobile make it attractive as a full takeover target or strategic consolidation with other mobile/broadband players.

We believe a takeover of NGT could add much to strengthen GET and ICE's positions in Norway. ICE is targeting a larger share of the mobile market but needs more critical mass. We also view GET as a likely acquirer since NGT could provide access to broadband and mobile customers.

NGT could strengthen Teliasonera position. TeliaSonera could also buy Broadnet to get the infrastructure and NGT to get access to its customers.

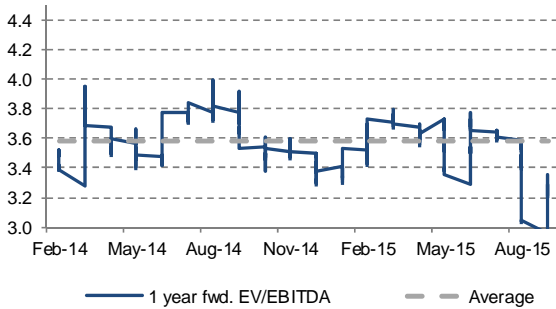
A consolidation with a Swedish player would also make sense due to the high share of VoIP and broadband subscriptions per capita in Sweden compared to other Nordic countries.

## Valuation

Our blended historical multiple/DCF target price of NOK 40 implies a c. 30% upside. Our target price is based on 2/3 weight on DCF-valuation and 1/3 weight on a next year EV/EBITDA multiple of 3.6x, in line with the historical average.

We estimate 1% revenue growth in 2016-17 as growth in mobile and fiber broadband should be offset by decline in VoIP and xDSL broadband. Due to revenue growth tilted towards lower-margin segments we estimate a flat margin development.

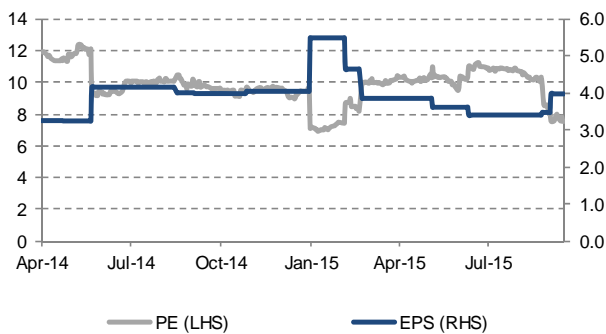
Next year EV/EBITDA vs. average



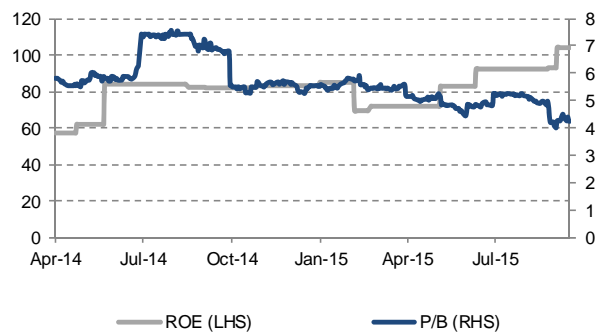
Next year P/B vs. average



P/E vs. EPS



P/B vs. ROE



Source: NGT/ Fondspfinans Research

In our DCF, our forecasts period extend into 2017. From 2018, we assume growth rate of 0.8% p.a. and use a nominal growth rate of 0.5% for the terminal value. We view the terminal revenue growth estimate to be on the conservative side. Applying a WACC of 9% we arrive at a net present value today of NOK 55 excluding liquidity discount and value today of NOK 50 including the discount.

## DCF valuation

DCF valuation (NOK 1000)	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	TY - 2021
Revenue	409,430	1,247,024	1,271,835	1,244,899	1,252,395	1,262,684	1,272,785	1,282,968	1,289,383	1,295,829
y/y Growth	NA	204.6%	2.0%	(2.1%)	0.6%	0.8%	0.8%	0.8%	0.5%	0.5%
<b>EBITDA</b>	<b>132,845.0</b>	<b>249,044.0</b>	<b>308,004.0</b>	<b>250,929.6</b>	<b>247,215.3</b>	<b>248,912.8</b>	<b>254,557</b>	<b>256,594</b>	<b>257,877</b>	<b>259,166</b>
Margin	32.4 %	20.0 %	24.2 %	20.2 %	19.7 %	19.7 %	20.0 %	20.0 %	20.0 %	20.0 %
(-) Cash Taxes	(26,185.1)	(25,756.1)	(40,019.9)	(26,421.2)	(26,085.2)	(26,362.9)	(32,646.9)	(32,908.1)	(33,072.7)	(33,238.0)
(+/-) Changes in Working Capital	(67,811.0)	(5,916.0)	(39,000.0)	1,902.4	59.1	2,259.4	(6,363.9)	(6,414.8)	(6,446.9)	(6,479.1)
(-) Capex	(37,893.0)	(56,176.0)	(74,477.0)	(104,655.3)	(95,182.0)	(88,387.9)	(89,095.0)	(89,807.7)	(90,256.8)	(90,708.1)
<b>Unlevered free cash flow</b>	<b>956</b>	<b>161,196</b>	<b>154,507</b>	<b>121,751</b>	<b>126,010</b>	<b>136,424</b>	<b>126,451</b>	<b>127,463</b>	<b>128,100</b>	<b>129,583</b>
% of Revenue	0.2%	12.9%	12.1%	9.8%	10.1%	10.8%	9.9%	9.9%	9.9%	10.0%
Adj. EBITDA Margin	32.4%	20.0%	24.2%	20.2%	19.7%	19.7%	20.0%	20.0%	20.0%	20.0%
Free cash flow / Adj. EBITDA	0.7%	64.7%	50.2%	48.5%	51.0%	54.8%	49.7%	49.7%	49.7%	50.0%

Fair value	
PV	580,874
NPV of terminal value	950,030
<b>Enterprise value</b>	<b>1,530,878</b>
(-) Debt	228,777
(+) Cash	35,069
<b>Equity value</b>	<b>1,337,165</b>
Shares	23,283
<b>Equity value per share</b>	<b>57</b>
Equity value per today, excl. liquidity discount	55
<b>Included 10% liquidity discount</b>	<b>52</b>
<b>Equity value per today</b>	<b>50</b>
Implied terminal EBITDA multiple	6.0x

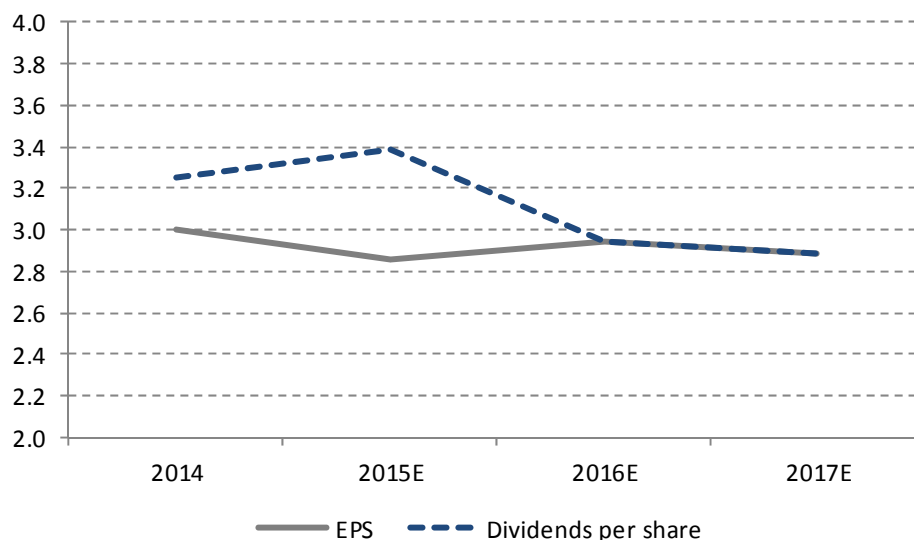
Assumptions	
Beta	1.3
Risk premium	6.0 %
Risk free rate	3.0 %
Tax	27.0 %
Return equity	10.8 %
Return debt	6.0 %
Debt ratio	25 %
<b>WACC</b>	<b>9.2 %</b>
Debt risk premium	0.03
Marketcap	698,495

Target share price sensitivity (incl. liquidity discount)					
	8.2%	8.7%	9.2%	9.7%	10.2%
0.50%	56	53	50	47	44
1.00%	59	55	52	49	46
1.50%	62	58	60	51	48

Source: NGT/ Fondsefinans Research

We expect the dividend yield of 10% to provide downside support for the share. The company has a 100% payout ratio as illustrated below.

## Dividend payout ratio



Source: NGT/ Fondsefinans Research

Our target values the share at an EV/EBITDA of 4.5x on 2015E-17E estimates. Our target still values NGT below peer pricing but we consider this fair due to low liquidity and muted long term outlook for VoIP and xDSL broadband.

**Multiples at current price and target**

<b>Multiples at current price - 30</b>						
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EV/Sales	2.2x	0.7x	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	6.7x	3.6x	2.9x	3.6x	3.6x	3.6x
EV/EBIT	9.2x	9.4x	6.0x	9.1x	9.2x	9.1x
P/E	8.6x	12.0x	10.0x	10.5x	10.2x	10.4x
P/B	4.32	4.42	4.46	4.20	3.53	3.00

<b>Multiples at target price - 40</b>						
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EV/Sales	2.7x	0.9x	0.9x	0.9x	0.9x	0.9x
EV/EBITDA	8.5x	4.5x	3.7x	4.5x	4.6x	4.5x
EV/EBIT	11.6x	11.8x	7.6x	11.5x	11.6x	11.5x
P/E	11.4x	16.1x	13.3x	14.0x	13.6x	13.8x
P/B	5.8x	5.9x	5.9x	5.6x	4.7x	4.0x

Source: NGT/ Fondsfinsans Researc

NGT is currently trading at a significant discount to European telecom providers and infrastructure independent providers. When identifying the relevant peers we use a combination of European infrastructure providers and operators as illustrated below. We reckon however that peers are difficult to directly compare with NextGenTel due to its large exposure to xDSL broadband and VoIP.

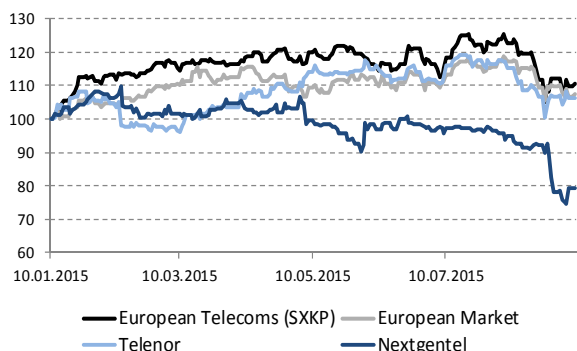
### Peer pricing

Company	FUNDAMENTALS				EV/EBITDA			P/E rep.			Revenue growth (%)			EBITDA margin (%)		
	Crncy	M. cap.	EV	Price	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Nextgentel	NOK	694	845	29.8	2.6	3.3	3.0	7.1	7.5	6.9	2.0	-1.7	3.0	24.0	20.2	20.6
<b>Infrastructure indep. providers</b>																
TalkTalk Telecom	NOK	38 090	45 326	315.4	20.2	15.3	11.5	42.6	33.9	20.8	7.9	17.6	22.7	13.9	17.0	21.1
Bredband 2	NOK	380	378	0.6	N/A	N/A	N/A	27.5	N/A	N/A	17.8	N/A	N/A	11.0	N/A	Security
Freenet	NOK	34 622	39 030	29.4	12.3	11.2	10.9	15.7	15.4	14.6	1.9	10.6	0.6	12.3	12.2	12.3
Drillish	NOK	21 914	20 963	43.4	26.4	23.5	20.0	41.5	46.8	38.7	6.7	98.7	31.9	29.9	19.2	17.3
DGC One	NOK	1 037	1 034	119.0	N/A	N/A	7.4	19.8	21.0	16.7	14.1	27.5	8.0	24.4	23.3	23.0
AdEPT Telecom	NOK	757	775	268.5	19.7	14.4	12.1	21.8	18.1	15.2	3.5	19.7	50.8	20.9	19.5	19.6
AllTele	NOK	426	510	17.0	4.5	N/A	N/A	8.7	N/A	N/A	15.7	N/A	N/A	12.0	N/A	N/A
Ecotel communication	NOK	312	328	8.7	5.1	4.3	3.5	24.8	19.8	14.9	18.9	7.8	4.1	7.5	8.3	9.1
<b>Average</b>					<b>14.7</b>	<b>12.7</b>	<b>10.8</b>	<b>25.3</b>	<b>25.8</b>	<b>20.1</b>	<b>10.8</b>	<b>30.3</b>	<b>19.7</b>	<b>16.5</b>	<b>16.6</b>	<b>17.1</b>
<b>European Telecom</b>																
Telenor	NOK	242 936	301 400	161.8	7.4	6.9	6.6	21.1	15.7	14.2	2.4	15.3	4.0	36.5	35.1	35.6
TDC	NOK	37 542	71 305	37.5	6.4	6.2	6.2	9.0	10.8	11.0	1.6	16.0	-1.5	42.3	39.7	39.3
Tele2	NOK	36 181	45 913	81.5	7.7	8.1	7.7	16.9	19.1	17.0	-11.6	10.6	2.7	23.1	21.7	22.7
Vodafone	NOK	726 695	1 036 567	216.6	6.8	7.4	7.5	16.8	36.1	42.5	2.4	9.6	13.7	28.2	28.5	29.2
BT Group	NOK	445 449	521 645	421.1	8.5	7.3	6.6	15.5	13.6	13.6	4.6	11.3	16.9	34.6	35.3	34.9
Deutsche Telecom	NOK	680 220	1 202 748	16.0	7.4	6.8	6.4	27.4	22.0	18.9	11.5	21.4	2.3	28.3	27.8	28.8
Com Hem	NOK	14 448	22 723	7.6	10.5	10.1	9.6	N/A	N/A	62.2	N/A	N/A	14.3	3.7	47.5	45.9
TeliaSonera	NOK	205 808	246 923	48.2	7.8	7.7	7.7	12.5	13.1	12.3	1.2	13.2	-0.2	35.0	33.5	33.8
Swisscom	NOK	212 018	286 532	487.3	7.5	7.7	7.5	14.8	15.6	15.2	11.0	20.7	0.9	38.1	37.0	37.1
<b>Average</b>					<b>7.8</b>	<b>7.6</b>	<b>7.3</b>	<b>16.7</b>	<b>23.1</b>	<b>19.6</b>	<b>2.9</b>	<b>14.7</b>	<b>4.7</b>	<b>34.8</b>	<b>33.8</b>	<b>34.2</b>

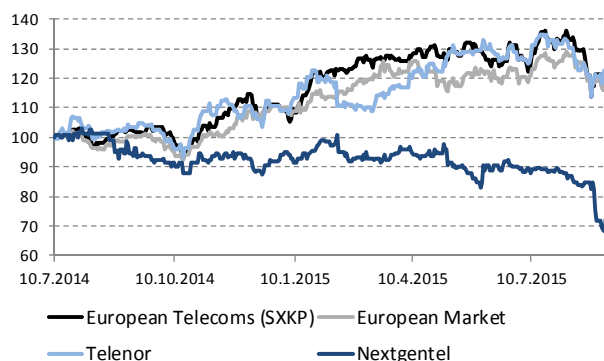
Source: Bloomberg/ Fondspfinans Research

NGT has underperformed the European telecoms sector YTD and on a 12 month basis.

### European telecom vs. the market YTD



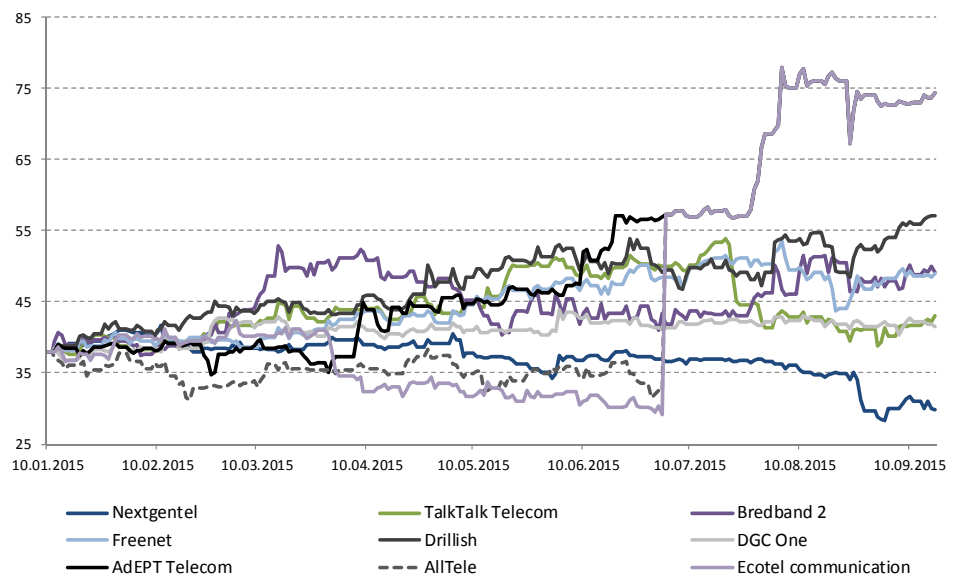
### European telecom vs. the market, 1 YR



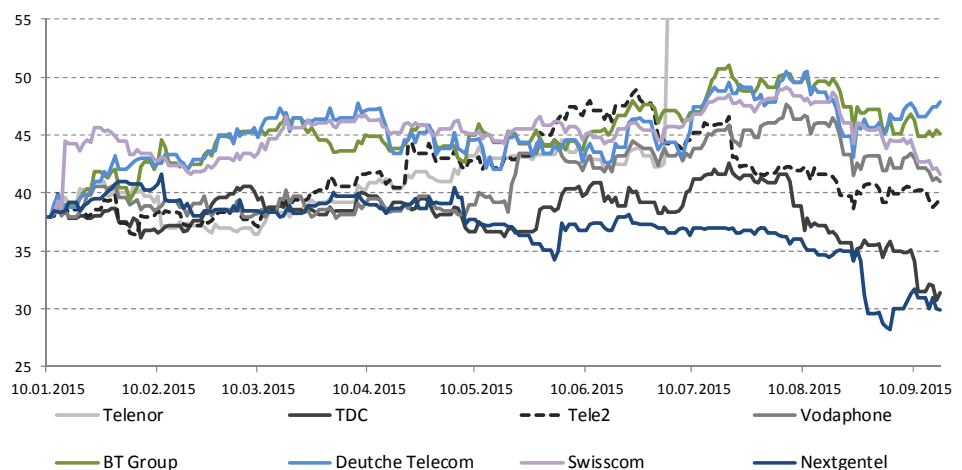
Source: Bloomberg/ Fondspfinans Research

NGT has underperformed peers both YTD and on a 12 month basis as illustrated below.

**Share price performance versus infrastructure independent providers YTD**



**Share price performance versus European telecom YTD**



Source: Bloomberg/ Fondspfinans Research

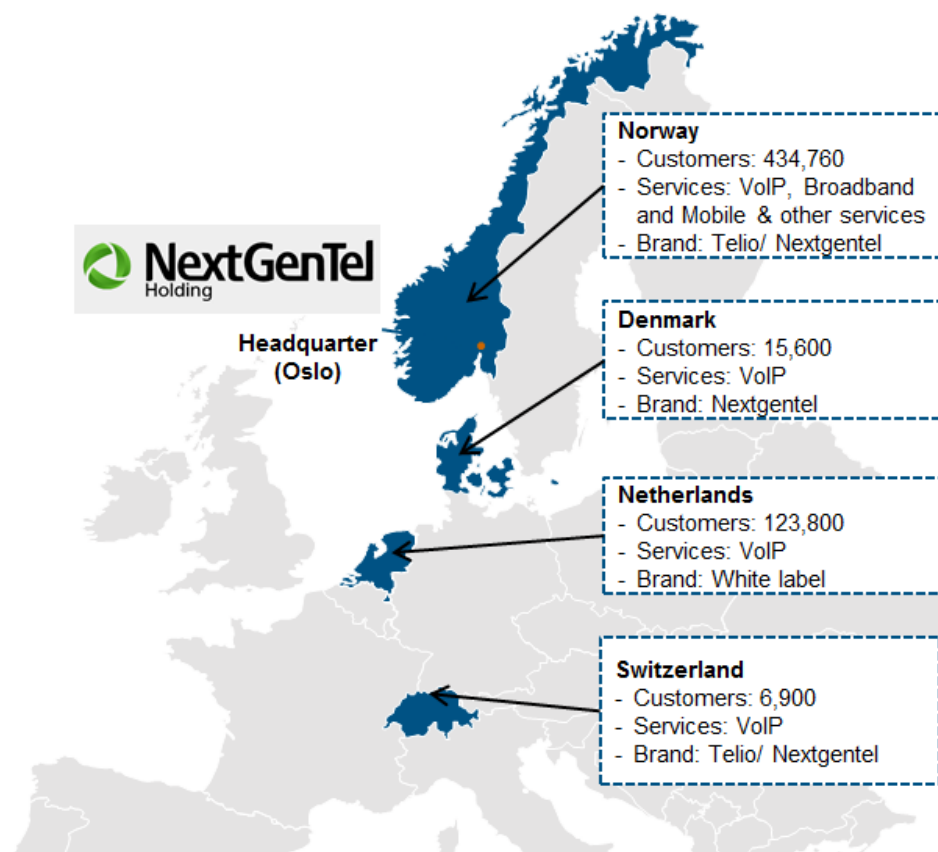
NGT announced an acquisition of Kvantel yesterday, but due to subject to approval by the Norwegian Competition Authority and certain other customary closing conditions, this is not included in our estimates yet. NGT will pay NOK 96m for Kvantel; NOK 71m at the completion and NOK 25m in repaid loans to former shareholders. NGT also announced an acquisition of Kvantel Voice for NOK 23m, which was spun off from Kvantel in January 2015, given a Due Diligence assessment. Kvantel is an independent datacom provider and was spun out of Hafslund Telekom in 2009. Kvantel reported revenues in 2014 of NOK 171,381m but NGT should expect some churn in relation to the acquisition. With Kvantel, NGT aims to take a larger part of the corporate market.



## Market details

NGT offers broadband, IP telephony, mobile and TV with approx. ~90% of revenues in Norway. We expect the exposure to IP telephony in Denmark, Switzerland and the Netherlands to be reduced. Management targets to maintain the current international customer base.

### Overview



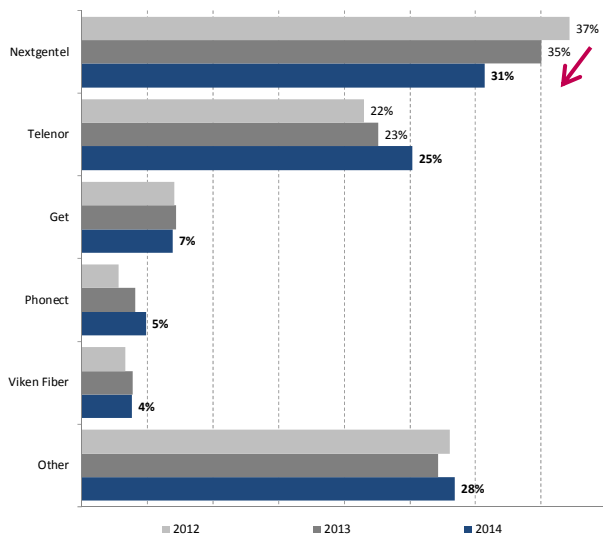
Source: NGT/ Fondsfinans Research

## The Norwegian segment

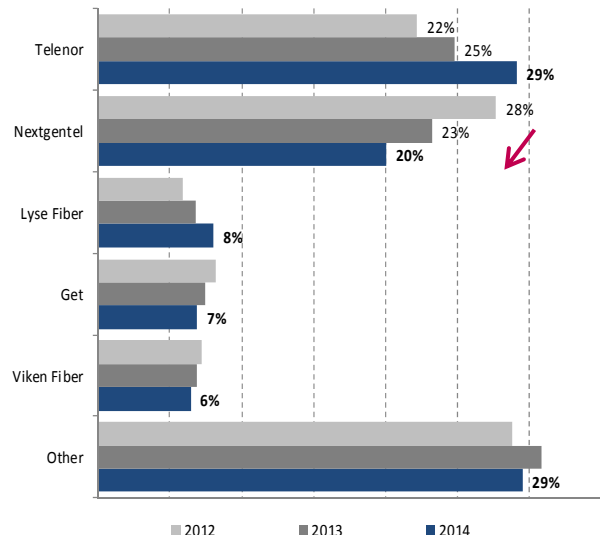
### IP telephony (VoIP)

NGT is the largest VoIP provider in terms of traffic in Norway, as illustrated below.

Market share VoIP, traffic minutes



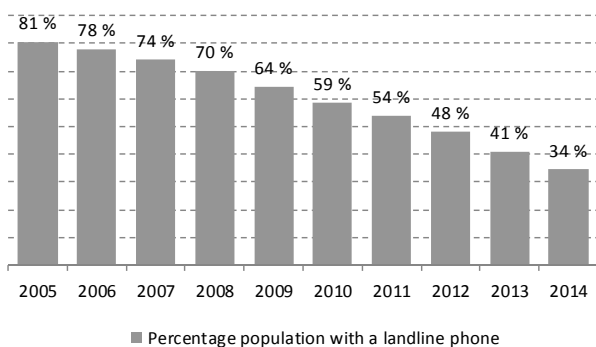
Total market share VoIP, revenues



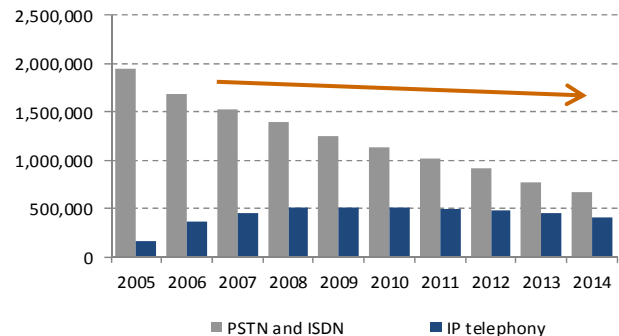
Source: NKOM/ Fondsfinsans Research

Despite VoIP is declining due to the switch to mobile, we expect the technology to remain important. The use of VoIP has proved to be more protected than declining consumer landline subscriptions and demand from businesses remains solid. The potential disruption risk from alternative VoIP services (i.e. Skype, Viber), has also not affected NGT's figures yet.

Falling use of landline phones, Norway

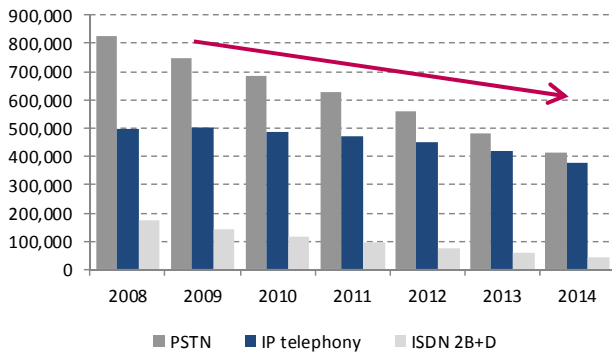


VoIP vs PSTN and ISDN subscribers, Norway

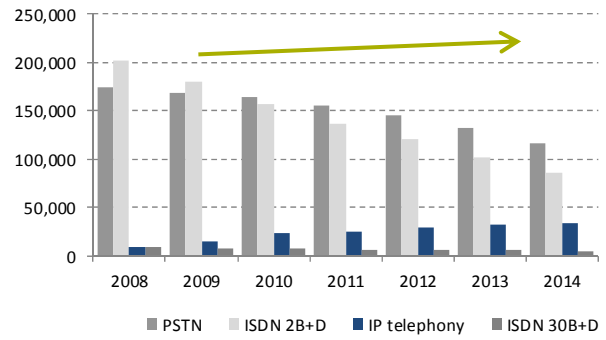


Source: NKOM/ Fondsfinsans Research

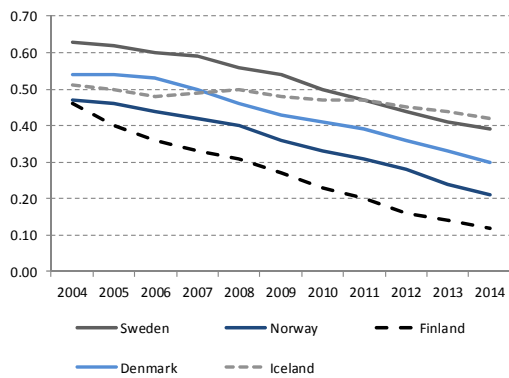
### Consumer subscriptions, Norway



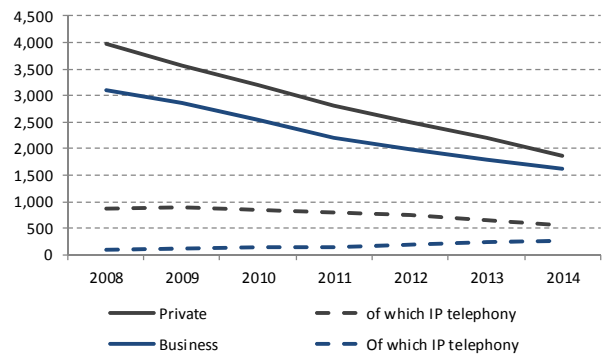
### Business subscriptions, Norway



### Fixed telecom subscriptions per capita (PSTN, ISDN and VoIP)



### Revenues from landline phones, Norway (NOKm)



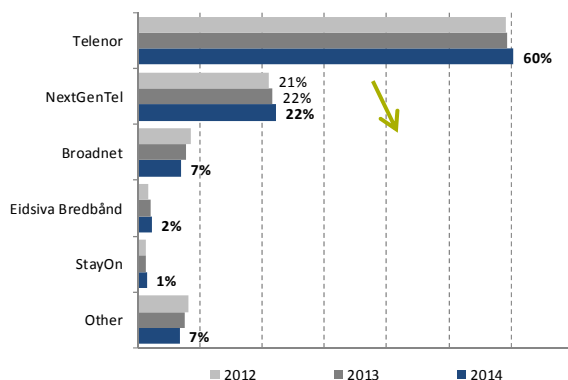
Source: NKOM/ Telenor/ Fondspfinans Research  
 "Klikk og lim inn element"

"Klikk og lim inn element"

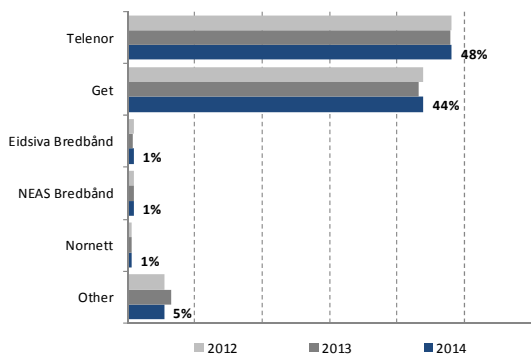
### Fixed broadband and TV (IP)

NGT is the third largest broadband provider with main exposure to xDSL. We expect broadband to be an increasing contributor to revenues. The broadband market in Norway consists of mainly xDSL, cable and fiber. Even though the upgrade cycle into super-fast fiber broadband disrupts the use of xDSL demand, we expect xDSL to still remain important. This is driven by continued investment in xDSL improvements such as G-fast and too high cost of fibre deployment in several places. Also, the adoption of fiber in the business segment is slower than for the consumer segment and we expect this will continue

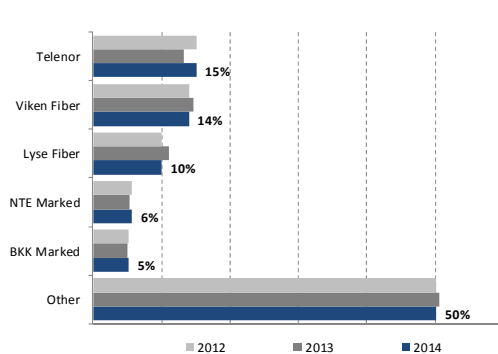
**xDSL market share, broadband (2014)**



**Cable Market share, broadband**

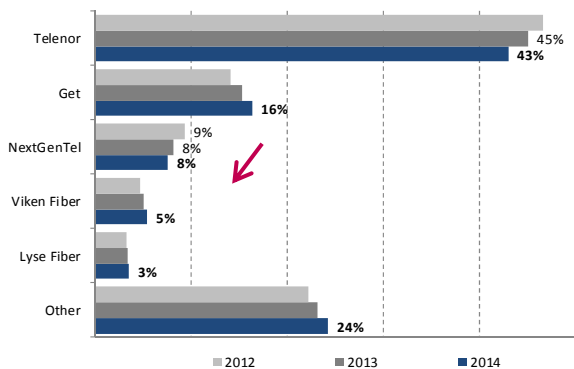


**Fiber market share, broadband**

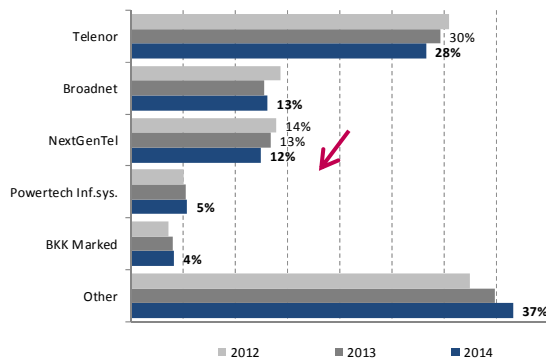


Source: NKOM/ Fondspfinans Research

**Market share Consumer segment, broadband**



**Market share business segment, broadband**

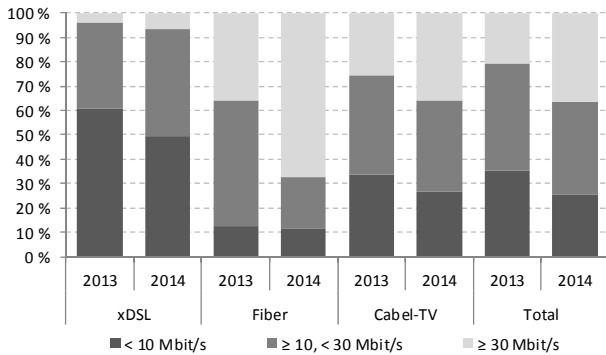


Source: NKOM/ Fondspfinans Research

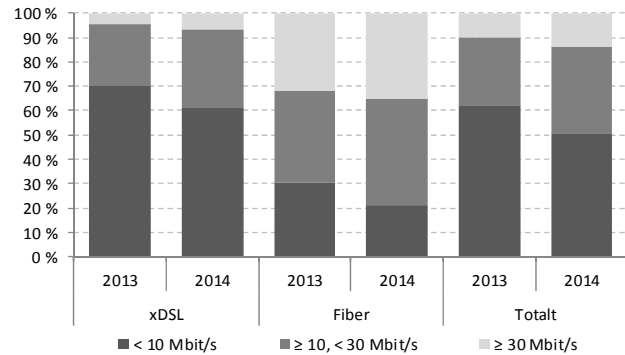
NGT gained access to Telenor’s fiber customers in January 2015 due to a regulatory change. Currently NGT has signed up approx. 2,400 of an estimated

total market size of 60,000 customers, estimated expanding at a rate of 25-30,000 p.a. There is an ongoing debate if other regional players may need to open their fiber network as well which could expand NGT's fiber market.

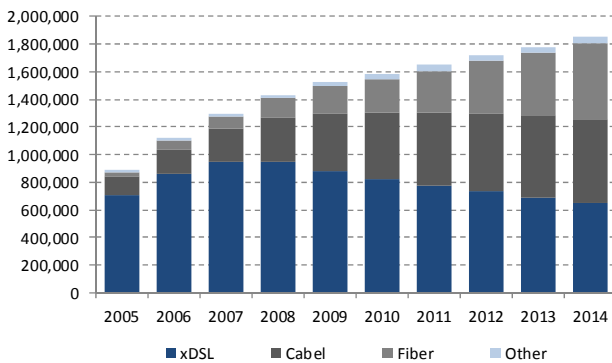
**Broadband subscriptions in terms of download capacity, Consumer**



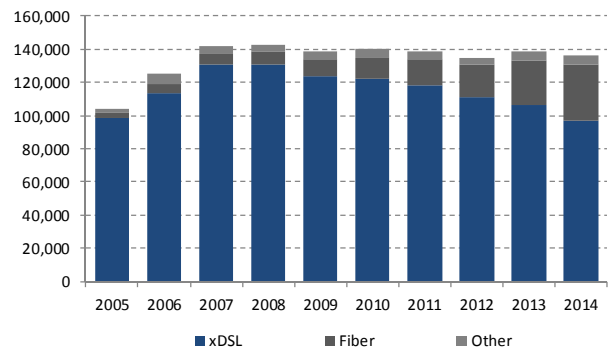
**Broadband subscriptions in terms of download capacity, business**



**Broadband subscriptions - Consumer**



**Broadband subscriptions - business**

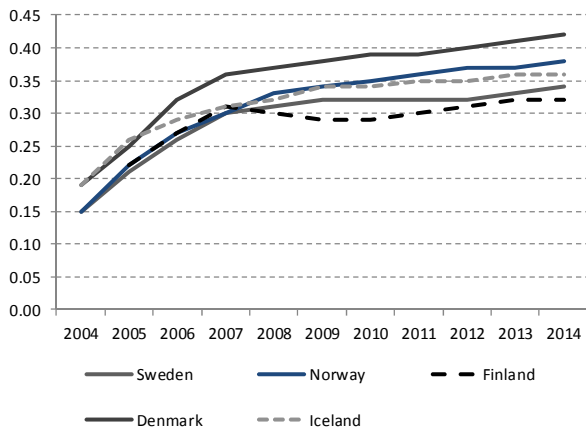


Source: NKOM/ Fondspfinans Research

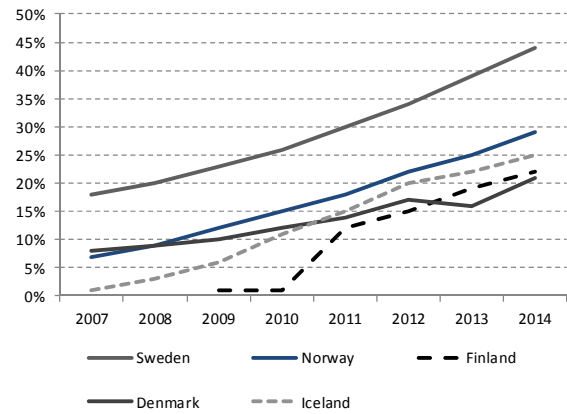
The company aims to increase its market share in Multi unit dwellings (MDU), an estimated market of 600,000 end-customers. NGT does not bundle its TV and broadband offering, compared to competitors GET and Canal Digital.

The "Reiten-committee" could open up for an increased customer base by 2017, which is not included in our estimates. Energy companies in Norway may have to report their broadband operations separately from 2017, which should prove that many are struggling with profitability. One solution could be to keep the infrastructure and sell customers/operations to NGT.

**Fixed broadband subscriptions per capita**



**Share of fiber of total fixed broadband subscriptions**



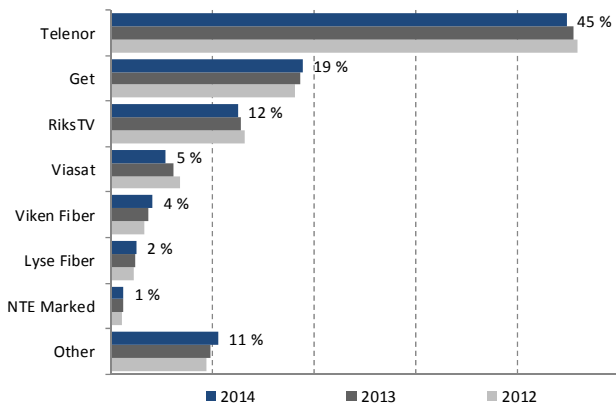
Fiber includes fiber-LAN networks (LAN connected to fiber)

Source: NKOM/ PTS/ Fondspfinans Research

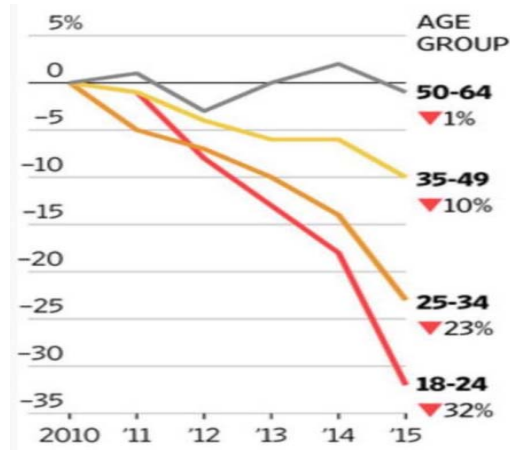
Another “option” not included in our estimates is increased broadband prices for cable-TV companies. This in order to compensate for the decline in cable TV as Internet-TV, e.g. Netflix, eats into the time that people spend watching traditional TV. Falling prices of smart TVs and set-top devices, a rumored launch of Apple TV service this fall, Dish Networks’s Sling TV, Sony’s Playstation web-TV service and other web-only subscriptions support this trend.

We do not expect an IP-everything generation where all users will stream TV over Internet. We expect TV to change, being less linear but still dominant as web providers and broadcasters somewhat rely on each other for content. Share of TV Everywhere viewing via OTT devices rose to 21% in 2Q15, an increase of 110% y/y, according to Adobe video index.

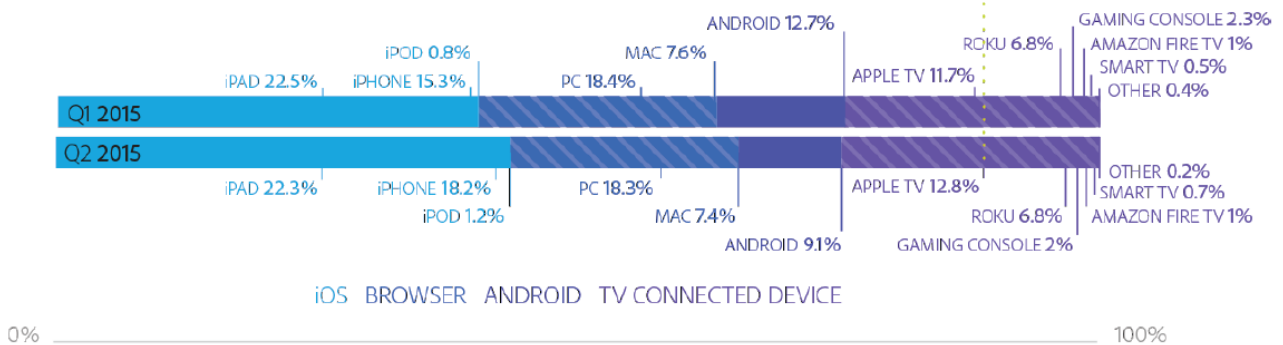
**TV subscriptions**



**Change of hours spent watching linear TV per week since 2010**



**Share of TV everywhere users by device type**



Source: NKOM/ Nielsen/ WSJ/ Adobe Digital Index 2Q15/ Fondspfinans Research

## Mobile

NGT operates as a mobile virtual network operator (MVNO), i.e. a carrier that does not own the actual network, through Netcom. The company aims to cross-sell mobile with its other offerings to a higher degree and improve the business segment package to drive further user growth.

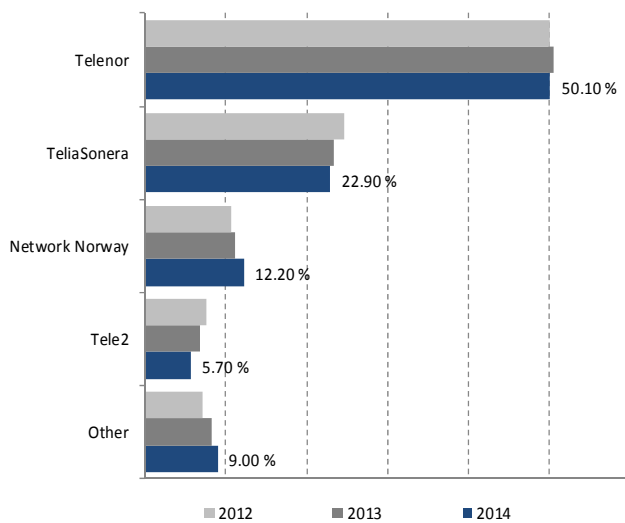
The growth in mobile subscriptions has stagnated while data volumes over mobile network still are increasing fast. Although both voice and data traffic are increasing in size in mobile, increased competition has put pressure on average user revenue (ARPU).

Even as there has been a difficult environment traditionally operating as an MNVO, NGT has been able to grow revenues. We speculate that with the ongoing consolidation across Europe, local regulators might want to create a more attractive environment for MVNOs.

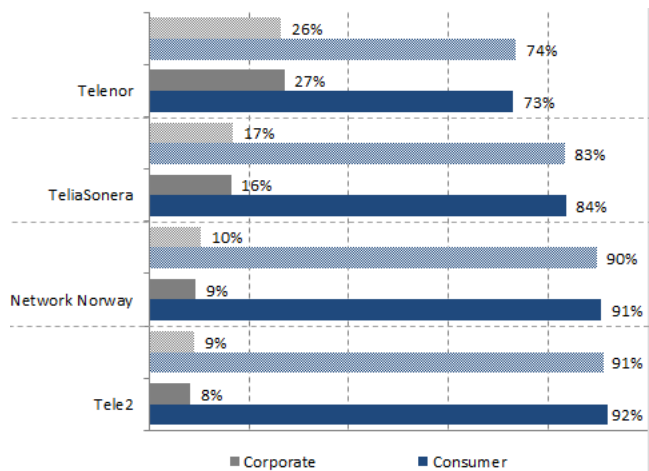
The operators (MNOs) in Norway are Telenor, TeliaSonera and ICE. Changed dynamics after frequency auction at the end of 2013 means Ice should move upwards over time with their pure-4G offering and the acquired Network Norway business customers. GET also aims for a MVNO position.

There is a long term risk that OTT providers, such as Google and Facebook, will start operating as MVNOs and be willing to deliver mobile access at close to cost to strengthen the relationship with the user. WhatsApp, entering into partnership with E-Plus in Germany, is for instance today selling SIMs with free WhatsApp messaging data. Google announced earlier this year plans to launch an MVNO service in the US running on top of T-Mobile and Sprint.

**Mobile phone market share**

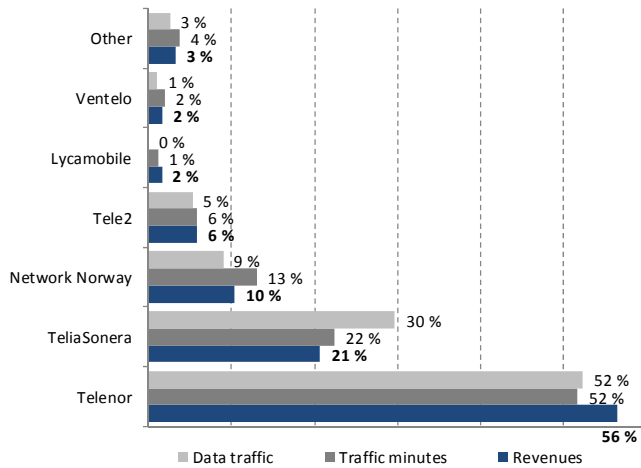


**Share of business vs. consumer 2014 (patterned fill shows 2013 numbers)**

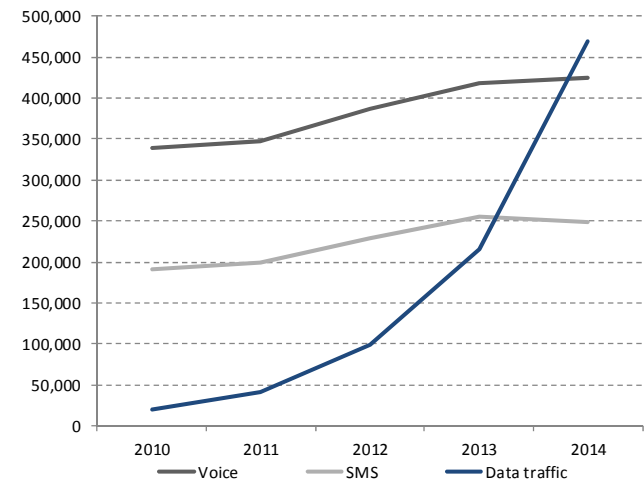




### Market share



### Development in traffic volumes

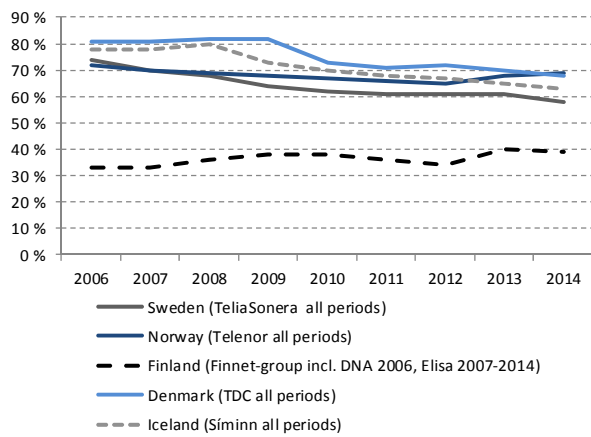


Source: NKOM/ Telenor/ Fondspfinans Research

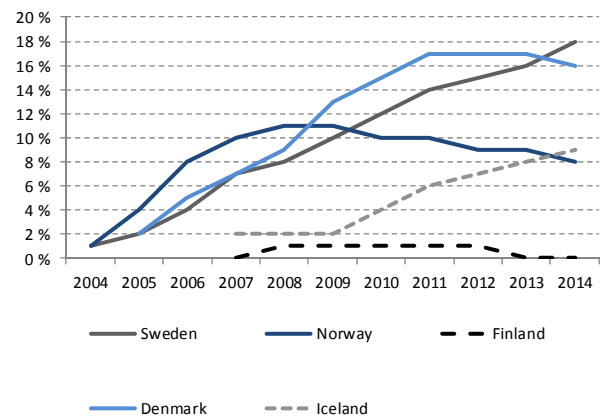
## International market

NGT offers VoIP in Denmark, Netherland and Switzerland, but we expect the exposure to the markets to decline. Management aims to maintain current user base, but we estimate decline in revenues moving forward. When comparing VoIP subscriptions per capita there are large differences as illustrated below.

### Market share of leading operator in fixed telephony



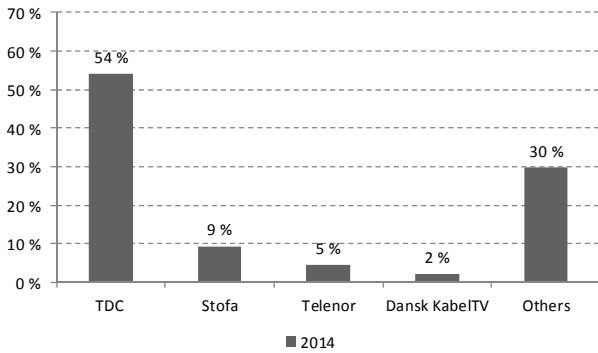
### VoIP subscriptions per capita



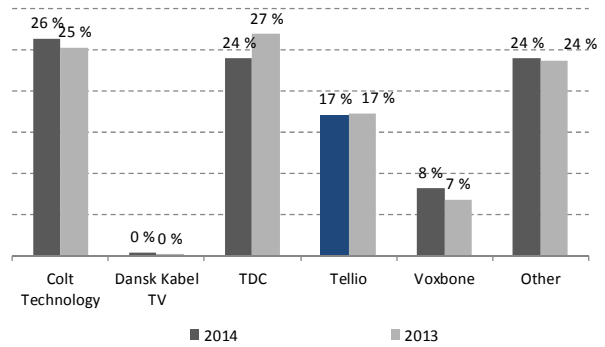
Source: PTS/ Fondspfinans Research

**Denmark** has a high share of VoIP subscriptions per capita compared to the Nordic countries but the market is highly competitive. NGT (Tellio) has a small market share and its main position for calls-abroad.

Market share VOIP, Denmark



Fixed line market share for calls abroad, Denmark



Source: Erhvervsstyrelsen/ Fondspfinans Research

In the **Netherland**, NGT has a distribution agreement with wholesale partners offering VoIP. In July 2014 NGT lost its largest distributor, KPN, as the company decided to migrate its customers internally. NGT has lost many customers in 2Q15 with full effect in 3Q15.

In **Switzerland** has NGT scaled down operations and targets to maintain its market share. Swisscom is the largest VoIP provider.

## P&L, balance sheet & Cash Flow (NOKm)

P&L	2012	2013	2014	2015E	2016E	2017E	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15E	4Q15E	1Q16E	2Q16E
Norway	315.5	1,144.9	1,199.1	1,170.0	1,185.7	1,196.1	300.3	303.3	299.1	290.0	291.8	294.1	294.1	294.2	296.1
of which Tello	315.5	341.4	317.0	0.0	0.0	0.0	81.0	81.3	77.3	0.0	0.0	0.0	0.0	0.0	0.0
of which NextGenTel	0.0	803.5	882.0	0.0	0.0	0.0	219.3	222.0	221.8	0.0	0.0	0.0	0.0	0.0	0.0
Denmark	36.8	37.4	32.4	28.7	27.6	27.6	8.1	8.0	7.8	7.6	7.0	7.0	7.1	7.1	6.8
Netherlands	39.4	46.6	43.5	23.4	16.4	16.4	10.0	9.7	11.5	8.5	6.7	4.1	4.1	4.1	4.1
Switzerland	17.7	21.2	19.9	22.8	22.6	22.5	4.7	4.9	5.1	5.8	5.5	5.7	5.8	5.8	5.5
Other	0.0	-3.1	-23.1	0.0	0.0	0.0	-4.4	-9.2	-9.5	0.0	0.0	0.0	0.0	0.0	0.0
<b>Revenues</b>	<b>409.4</b>	<b>1,247.0</b>	<b>1,271.8</b>	<b>1,244.9</b>	<b>1,252.4</b>	<b>1,262.7</b>	<b>318.9</b>	<b>316.6</b>	<b>314.0</b>	<b>311.9</b>	<b>311.1</b>	<b>310.9</b>	<b>311.1</b>	<b>311.2</b>	<b>312.5</b>
% change Y/Y		205 %	2 %	-2 %	1 %	1 %	-4 %	-3 %	-4 %	-3 %	-2 %	-2 %	-1 %	0 %	0 %
% change Q/Q		0 %	0 %	0 %	0 %	0 %	-1 %	-1 %	-1 %	-1 %	0 %	0 %	0 %	0 %	0 %
<b>Gross profit</b>	<b>247.8</b>	<b>667.3</b>	<b>674.3</b>	<b>641.5</b>	<b>647.9</b>	<b>650.9</b>	<b>166.6</b>	<b>166.5</b>	<b>170.5</b>	<b>160.3</b>	<b>160.7</b>	<b>161.4</b>	<b>159.1</b>	<b>162.6</b>	<b>160.0</b>
Gross margin	61 %	54 %	53 %	52 %	52 %	52 %	52 %	53 %	54 %	51 %	52 %	52 %	51 %	52 %	51 %
<b>EBITDA</b>	<b>132.8</b>	<b>249.0</b>	<b>308.0</b>	<b>250.9</b>	<b>247.2</b>	<b>248.9</b>	<b>76.7</b>	<b>76.3</b>	<b>78.3</b>	<b>64.2</b>	<b>62.9</b>	<b>62.5</b>	<b>61.4</b>	<b>62.2</b>	<b>59.3</b>
% EBITDA margin	32 %	20 %	24 %	20 %	20 %	20 %	24 %	24 %	25 %	21 %	20 %	20 %	20 %	20 %	19 %
<b>EBIT</b>	<b>97.0</b>	<b>95.4</b>	<b>148.2</b>	<b>97.9</b>	<b>96.6</b>	<b>97.6</b>	<b>36.8</b>	<b>37.0</b>	<b>36.9</b>	<b>26.4</b>	<b>22.6</b>	<b>25.0</b>	<b>23.9</b>	<b>24.7</b>	<b>21.7</b>
% EBIT margin	24 %	8 %	12 %	8 %	8 %	8 %	12 %	12 %	12 %	8 %	7 %	8 %	8 %	8 %	7 %
<b>Pre-tax profit</b>	<b>95.3</b>	<b>60.3</b>	<b>92.4</b>	<b>86.9</b>	<b>91.3</b>	<b>89.7</b>	<b>33.1</b>	<b>33.4</b>	<b>32.9</b>	<b>24.0</b>	<b>19.9</b>	<b>21.9</b>	<b>21.1</b>	<b>24.0</b>	<b>20.7</b>
<b>Tax</b>	<b>-13.9</b>	<b>-1.5</b>	<b>-20.5</b>	<b>-20.3</b>	<b>-13.9</b>	<b>-13.9</b>	<b>-8.8</b>	<b>-8.8</b>	<b>-6.5</b>	<b>-6.4</b>	<b>-3.2</b>	<b>-5.5</b>	<b>-5.3</b>	<b>-6.0</b>	<b>-13.9</b>
% Tax rate	-15 %	-2 %	-22 %	-23 %	-25 %	-25 %	-27 %	-26 %	-20 %	-27 %	-16 %	-25 %	-25 %	-25 %	-25 %
<b>Net income</b>	<b>81.5</b>	<b>58.8</b>	<b>71.9</b>	<b>66.5</b>	<b>68.5</b>	<b>67.3</b>	<b>24.4</b>	<b>24.6</b>	<b>26.4</b>	<b>17.6</b>	<b>16.7</b>	<b>16.4</b>	<b>15.8</b>	<b>18.0</b>	<b>15.5</b>
<b>Balance</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2Q14</b>	<b>3Q14</b>	<b>4Q14</b>	<b>1Q15</b>	<b>2Q15</b>	<b>3Q15E</b>	<b>4Q15E</b>	<b>1Q16E</b>	<b>2Q16E</b>
Cash and cash equivalents	221.8	221.8	68.0	35.1	122.3	222.3	51.1	73.8	68.0	69.2	81.2	12.8	35.1	52.4	79.7
Other current assets	327.7	318.5	247.9	238.5	241.8	243.6	243.9	246.6	247.9	257.2	263.1	238.3	238.5	238.6	239.6
Property, plant and equipment	180.8	180.8	174.4	160.7	105.2	42.3	168.5	162.9	174.4	178.1	179.7	170.2	160.7	146.8	132.9
Other non-current assets	332.1	323.1	304.1	355.4	355.4	355.4	311.5	308.3	304.1	292.9	280.4	355.4	355.4	355.4	355.4
<b>Total assets</b>	<b>1,062.5</b>	<b>1,044.2</b>	<b>794.3</b>	<b>789.5</b>	<b>824.7</b>	<b>863.6</b>	<b>775.1</b>	<b>791.5</b>	<b>794.3</b>	<b>797.4</b>	<b>804.3</b>	<b>776.6</b>	<b>789.5</b>	<b>793.1</b>	<b>807.5</b>
Short term interest bearing	63.5	60.2	55.1	54.1	55.6	55.6	53.8	55.3	55.1	55.0	57.7	54.6	54.1	55.2	55.3
Long-term interest bearing debt	415.9	410.6	177.4	174.7	174.7	174.7	202.8	176.4	177.4	161.3	174.7	174.7	174.7	174.7	174.7
Other short term liabilities	364.9	365.5	362.8	362.2	364.1	368.1	345.0	369.2	362.8	369.3	375.7	358.6	362.2	357.6	363.7
Other long term liabilities	56.6	47.6	37.5	32.4	32.4	32.4	42.4	32.9	37.5	34.9	32.4	32.4	32.4	32.4	32.4
<b>Total liabilities</b>	<b>900.9</b>	<b>883.9</b>	<b>632.9</b>	<b>623.3</b>	<b>626.7</b>	<b>630.8</b>	<b>644.0</b>	<b>633.7</b>	<b>632.9</b>	<b>620.4</b>	<b>640.4</b>	<b>620.3</b>	<b>623.3</b>	<b>619.9</b>	<b>626.1</b>
Equity	161.5	160.3	161.5	166.2	198.0	232.8	131.0	157.8	161.5	177.0	163.9	156.4	166.2	173.2	181.4
Equity share (%)	15 %	15 %	20 %	21 %	24 %	27 %	17 %	20 %	20 %	22 %	20 %	20 %	21 %	22 %	22 %
Net debt	-257.6	-248.9	-164.6	-193.7	-107.9	-8.0	-205.5	-157.9	-164.6	-147.0	-151.1	-216.5	-193.7	-177.5	-150.3
<b>Cash flow</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2Q14</b>	<b>3Q14</b>	<b>4Q14</b>	<b>1Q15</b>	<b>2Q15</b>	<b>3Q15E</b>	<b>4Q15E</b>	<b>1Q16E</b>	<b>2Q16E</b>
Net income	63.9	60.3	92.4	76.1	68.5	67.3	33.1	33.4	32.9	24.0	19.9	16.4	15.8	18.0	15.5
Operating cash flow	106.0	215.7	204.2	238.4	250.9	255.6	39.6	80.3	55.3	52.0	51.9	68.4	66.1	59.0	66.6
Capex	-37.9	-56.2	-74.5	-104.7	-95.2	-88.4	-11.2	-16.6	-27.1	-24.1	-24.6	-28.0	-28.0	-23.7	-23.8
Net cash flow from investing activities	-72.6	-618.5	-26.6	-189.7	-95.2	-88.4	-27.0	-28.9	-33.8	-30.6	-28.1	-103.0	-28.0	-23.7	-23.8
Net cash flow from financing activities	-59.7	571.6	-332.9	-81.6	-68.5	-67.3	-42.7	-29.8	-27.4	-20.9	-11.0	-33.9	-15.8	-18.0	-15.5
Cash and cash equivalents at end of period	221.8	221.8	68.0	35.0	122.3	222.3	51.1	73.8	68.0	69.2	81.2	12.8	35.1	52.4	79.7

## Risk assessment

Mobile and broadcasting are highly exposed to competition both from incumbent competitors and from new market players.

There is increased risk for services migration from traditional voice calls to alternative VoIP services (i.e. Skype, Viber) in the more developed mobile markets.

## Definitions of ratings

**Buy** Low risk: with a potential of min 5%. Medium risk: with a potential of min 10%. High risk: with a potential of min 15%.

**Neutral** Low risk: -5% to +5%. Medium risk: -10% to +10%. High risk: -15% to +15%.

**Sell** Low risk: min 5%. Medium risk: min 10%. High risk: min 15%.

**Risk ratings** are based on price volatility, fundamental criteria and perceived risk. Ratings are: Low (L), Medium (M) and High (H).

**Target:** Our valuation as of today.

**Time frame of target:** Target is what we value the share as of today.

Recommendation distribution as of 19.08.15:

Recommendation	No	Percent
Buy	44	68 %
Neutral	9	14 %
Sell	12	18 %
Total	65	100 %

Companies in each recommendation category that have been investment banking clients over the past 12 months:

Recommendation	No	Percent
Buy	3	7 %
Neutral	0	0 %
Sell	0	0 %
Total	3	

Our intention is to issue preview and update research on a quarterly basis.

Our investment recommendation is elaborated in accordance with "The Norwegian Securities Dealers Associations" standards.

This report has not been sent to the companies for correction of any factual errors.

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# NEXTGENTEL

Analyst: Henriette Trondsen +47 23 11 30 45

Sector:	Telecom/ Technology	<b>Price (NOK):</b>	<b>30</b>	Shares outs.:	23,283.2m
Date:	17 Sep 2015			Market cap:	698,495
Next result:	12 Nov 2015	Book equity per share:	<b>73.4</b>	Net int.-bearing debt:	-193,708
Target:	40	Equity ratio:	21 %	Enterprise value:	504,787
<b>Recommendation:</b>	<b>BUY</b>	12 month high/low:	46/ 28		

Numbers in NOKm	2012	2013	2014	2015E	2016E	3Q14	4Q14	1Q15	2Q15	3Q15E
Operating revenues	409.4	1,247.0	1,271.8	1,244.9	1,252.4	316.6	314.0	311.9	311.1	310.9
Growth Y/Y	4 %	n.m.	2 %	-2 %	1 %	-3 %	-4 %	-3 %	-2 %	-2 %
COGS										
DC growth										
<b>EBITDA</b>	132.8	249.0	308.0	250.9	247.2	76.3	78.3	64.2	62.9	62.5
Depreciation	-35.9	-153.7	-159.8	-153.1	-150.6	-39.3	-41.4	-37.7	-40.3	-37.5
<b>EBIT</b>	97.0	95.4	148.2	97.9	96.6	37.0	36.9	26.4	22.6	25.0
Net financial items	-1.6	-35.1	-55.8	-11.0	-5.3	-3.6	-3.9	-2.4	-2.7	-3.0
<b>Pre tax profit</b>	95.3	60.3	92.4	86.9	91.3	33.4	32.9	24.0	19.9	21.9
Tax	-13.9	-1.5	-20.5	-20.3	-22.8	-8.8	-6.5	-6.4	-3.2	-5.5
<b>Net income</b>	81.5	58.8	71.9	66.5	68.5	24.6	26.4	17.6	16.7	16.4
Adjustments										
<b>Adjusted profit/loss</b>	81.5	58.8	71.9	66.5	68.5	24.6	26.4	17.6	16.7	16.4
Cash earning reported	117.3	212.5	231.7	219.6	219.1	63.9	67.9	55.3	57.0	53.9
Gross margin	61 %	54 %	53 %	52 %	52 %	53 %	54 %	51 %	52 %	52 %
EBITDA margin	32 %	20 %	24 %	20 %	20 %	24 %	25 %	21 %	20 %	20 %
EBIT margin	24 %	8 %	12 %	8 %	8 %	12 %	12 %	8 %	7 %	8 %
Shares outstanding	23.3	23.6	24.0	23.3	23.3					
Share price NOK	25	42	43	30	30					
Dividend per share	2.0	3.3	3.4	2.9	2.9					
EPS adjusted	3.50	2.49	3.00	2.86	2.94					
P/E	8.6	12.0	10.0	10.5	10.2	<b>Sensitivity EPS estimates</b>		<b>2014</b>	<b>2015E</b>	
EV/EBITDA	6.7	3.6	2.9	3.6	3.6	Base estimates		3.00	2.86	
EV/EBIT	9.2	9.4	6.0	9.1	9.2					
P/BOOK	4.3	4.4	4.5	4.2	3.5	+ / - 10% sales growth		3.93	3.85	
Return on equity (adj.)	50 %	37 %	45 %	40 %	35 %	+ / - NOK 5m OPEX		0.00	0.00	

in NOKm	2012	2013	2014	2015E	2016E	10 largest shareholders as of	17.09.15
Current assets	549.6	540.3	315.9	273.5	364.1	Name	%
Fixed assets	512.9	503.9	478.5	516.0	460.6	Veen	2,420 10.4 %
- of which goodwill	44.0	67.1	67.1	142.1	142.1	Storebrand	1,717 7.4 %
Total assets	1,062.5	1,044.2	794.3	789.5	824.7	Xfile	1,500 6.4 %
Liabilities	900.9	883.9	632.9	623.3	626.7	Swedbank Robur Fonder	1,283 5.5 %
Shareholders' equity	161.5	160.3	161.5	166.2	198.0	JP Morgan Chase	1,283 5.5 %
Book equity/share	6.9	6.8	6.7	7.1	8.5	Talir Holding	1,260 5.4 %
Equity ratio	15 %	15 %	20 %	21 %	24 %	Alfred Berg Kapitalforvaltning	1,152 4.9 %
Net debt	-257.6	-248.9	-164.6	-193.7	-107.9	State Street Bank	852 3.7 %
<b>Cashflow statement</b>						Invesco Advisors	790 3.4 %
Cashflow from operations	173.8	221.6	243.2	236.5	250.9	Arctic Fund Management	757 3.3 %
Net cash flow from financ	-72.6	-618.5	-26.6	-189.7	-95.2	Total 10 largest	13,013 55.9 %
Free cashflow	68.1	159.6	129.8	133.8	155.7	Others	10,270 44.1 %
						Total	23,283 100 %