

NextGenTel Holding

BUY

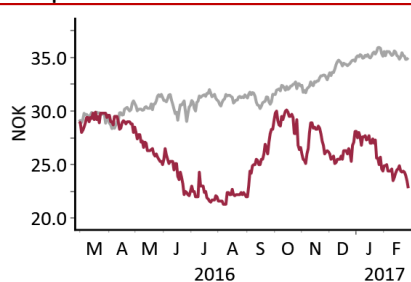
Key share data

Sector	Telecommunication Services
Reuters	NGT.OL
Bloomberg	NGT NO

Market Cap (NOKm)	531
Net debt (NOKm)	258
EV (NOKm)	789

Issued shares (mill.)	23.3
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Share price



-NextGenTel - OSEBX (Rebased)

Performance

	1m	3m	12m
NGT	-7 %	-8 %	-17 %
OSEBX	-3 %	5 %	21 %

Upcoming events

AGM	April 20, 2017
1Q17 results	May 4, 2017

Norne Securities AS is a market maker in the shares of NextGenTel Holding

Analyst

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Stability in results, while positive information on tax issue allows NGT to keep dividends

NextGenTel Holding released 4Q16 report two weeks ago. The main metrics were slightly lower than our projections, but overall another stable quarter was seen. Gradually declining figures were offset by positive information about the tax issue as it was communicated that due to a large credit deduction, the maximum payment could be NOK 11m (while in our worst scenario NOK 35.5m was calculated). This allowed the company distribute dividends of NOK 0.5/sh and we expect them to keep quarterly dividend payments going forward. Our model had just minor updates and we reiterate our Buy recommendation at NOK 32/sh.

Slightly lower main metrics, but overall stability remains

NextGenTel's revenues came in line with our expectations at NOK 330m, which was lower QoQ and YoY due to a decreasing customer base in Norway and Netherlands. While adj. EBIT and adj. EPS came short of our estimates at NOK 22.1m and NOK 0.67/sh respectively, the results were overall stable, providing positive bottom line for 11th quarter in a row.

Kvantel to lead the way until new contracts start bearing fruits

2017 is expected to be rather stable with gradually declining revenues from Nordics and Netherlands offset by a significant growth of Kvantel. In 4Q16 Kvantel's revenues already increased 12% QoQ, strengthening our view towards the segment. Furthermore, the company had a great wave of contracts being announced one after another in January and although it will take time, NGT will bear fruits from them in a more distant future.

Large credit deduction significantly lowered the maximum payment for the tax issue in Switzerland

The updated information on a tax issue in Switzerland was communicated. The company assessed that, in the event of a final outcome where 28% tax on dividends for relevant period has to be paid, a tax credit will be given for the tax paid in Switzerland. 28% tax equals approximately NOK 56m and the credit deduction is approximately NOK 45m. In such a scenario the net risk amounts to NOK 11m, while we were seeing NOK 35.5m in our worst-case scenario. This would let the company to keep quarterly ordinary dividends. We expect NOK 0.5/sh to be paid for every quarter in 2017, while growing to NOK 0.75/sh in 2018 and to NOK 1/sh in 2019.

Positive stance maintained after minor model adjustments

We keep our Buy recommendation for the share as 2017 is seen stable-to-challenging, but we believe the company starts gaining from Kvantel and new contracts further on. TP unchanged at NOK 32/sh.

Estimate changes (NOKm)	4Q16		1Q17E		2017E		2018E		2019E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	330	334	334	336	1,363	1,373	1,405	1,408	1,418	1,420
EBITDA	54	56	56	55	230	231	238	243	249	252
<i>EBITDA margin</i>	16 %	17 %	17 %	16 %	17 %	17 %	17 %	17 %	18 %	18 %
EBIT (adj)	22	25	27	25	113	115	123	134	137	147
<i>EBIT margin (adj)</i>	7 %	8 %	8 %	7 %	8 %	8 %	9 %	10 %	10 %	10 %
Pre-tax profit	9	10	11	10	54	58	100	112	120	131
Tax	-2	-3	-3	-3	-13	-15	-24	-28	-29	-33
<i>Tax rate</i>	23 %	25 %	24 %	25 %	24 %	25 %	24 %	25 %	24 %	-25 %
Profit after tax	7	8	9	8	41	44	76	84	91	99

DCF model

DCF (NOKm)	2017E	2018E	2019E	2020E
Revenues	1,363	1,405	1,418	1,423
EBIT	66	108	128	133
<i>Tax on EBIT</i>	-16	-26	-31	-32
NOPLAT (+)	50	82	97	101
Depreciation & amortization (+)	164	131	121	117
Capital expenditure (-)	-125	-114	-115	-115
Change in working capital (- or +)	5	-1	-2	0
Free Cash Flow to the Firm	94	98	101	103
NPV of FCFF	87	83	80	74

WACC calculation	
Debt ratio	25 %
Cost of debt (after tax)	3.0%
Risk free rate	3.0%
Beta	1.2
Market risk premium	6.0%
Cost of equity	10.2%
WACC	8.4%

Valuation, NOKm	
Net debt	258
NPV cash flow	
2017E-2020E	324
2021E-	1,289
Total NPV cash flow	1,613
Equity value	1,355
Value per share, NOK	58.19

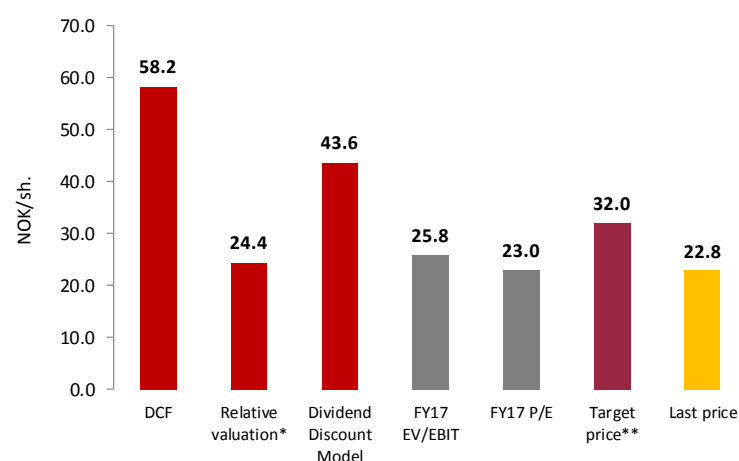
Assumptions	
L.t. growth	2.5%
Tax rate	24 %
# shares, m	23.3

DDM model

Valuation: Discounted dividend model (NOK)

	2016	2017E	2018E	2019E	2020E	Base year
Net profit (NOKm)	32.40	41.39	75.92	91.42	94.98	97.35
DPS	0.50	2.00	3.00	3.50	4.00	3.92
Dividend payout ratio	33.3%	60.8%	80.6%	83.8%	94.1%	90.0%
Cost of equity	10.2%					
L.t. dividend growth rate	2.5%					
Discounted dividends	0.49	1.77	2.41	2.55	2.65	
Sum of DD 2016-2020e	9.9					
Terminal value	33.7					
Value per share	43.6					

Fair value by approach



* Average of EV/EBIT and P/E evaluations used on FY17 multiples

** Rounded, discount of 25% applied to the average of DCF, Dividend Discount and Relative valuations

Peer comparison

USDm		EV	EV/EBIT		EV/EBITDA		P/E		Div. yield		Market
Company	Source		2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	Cap.
NextGenTel Holding	Norne	95	11.7	6.9	3.4	3.1	12.8	7.0	8.8%	13.2%	64
Nordic peers											
Telenor	Consensus*	31,451	11.1	10.7	6.3	6.3	13.1	12.2	5.9%	6.1%	24,526
TeliaSonera	Consensus*	29,767	12.2	11.7	7.6	7.3	12.1	11.6	5.6%	5.8%	17,340
TDC	Consensus*	8,039	15.9	14.7	6.7	6.4	13.7	12.8	2.8%	3.2%	4,367
Average			13.1	12.4	6.9	6.7	12.9	12.2	4.8%	5.0%	
<i>Premium (discount)</i>			-10 %	-44 %	-51 %	-53 %	-1 %	-43 %	4 %p	8 %p	
Netherlands peers											
KPN	Consensus*	21,217	18.7	17.3	7.0	6.8	23.3	20.0	5.0%	5.7%	12,046
Proximus	Consensus*	12,857	13.1	12.5	6.3	6.2	16.3	15.5	5.4%	5.5%	9,931
Average			15.9	14.9	6.7	6.5	19.8	17.7	5.2%	5.6%	
<i>Premium (discount)</i>			-26 %	-54 %	-50 %	-52 %	-35 %	-61 %	4 %p	8 %p	
Switzerland peers											
Swisscom	Consensus*	31,718	15.6	15.7	7.6	7.6	15.4	15.4	5.0%	5.0%	22,709
<i>Premium (discount)</i>			-25 %	-56 %	-56 %	-59 %	-17 %	-55 %	4 %p	8 %p	
Total average			14.4	13.8	6.9	6.8	15.7	14.6	4.9%	5.2%	
<i>Premium (discount)</i>			-19 %	-50 %	-52 %	-54 %	-18 %	-52 %	4 %p	8 %p	

*Thomson Reuters Eikon

Profit & Loss (NOKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Operating revenues	410	1,247	1,272	1,279	1,359	1,363	1,405	1,418
COGS & Operating expenses	-310	-977	-964	-1,038	-1,133	-1,133	-1,166	-1,169
EBITDA	99	270	308	241	226	230	238	249
Depreciation & Amortisation	-42	-130	-121	-116	-122	-116	-115	-112
EBIT (adj)	58	141	187	125	104	113	123	137
Non-recurring items	-5	-45	-38	-46	-48	-48	-16	-9
EBIT	53	95	148	80	55	66	108	128
Net interest & other financial effects	-2	-35	-56	-12	-13	-11	-8	-8
Pre-tax profit	51	60	92	68	42	54	100	120
Taxes	-14	-1	-21	-10	-9	-13	-24	-29
Profit after tax	37	59	72	59	32	41	76	91
EPS rep. (NOK)	1.89	2.53	3.09	2.51	1.39	1.78	3.26	3.93
EPS adj. (NOK)	1.58	4.62	4.77	5.48	3.01	3.29	3.72	4.17
Margins								
Operating margin	14 %	11 %	15 %	10 %	8 %	8 %	9 %	10 %
ROE	>100%	>100%	>100%	>100%	>100%	>100%	>100%	>100%
ROCE	>100%	43 %	37 %	30 %	24 %	30 %	38 %	44 %
Tax rate	28 %	2 %	22 %	14 %	23 %	24 %	24 %	24 %
Growth rates (YoY)								
Operating revenues	6 %	>100%	2 %	1 %	6 %	0 %	3 %	1 %
EBIT (adj)	-32 %	>100%	33 %	-33 %	-17 %	9 %	9 %	11 %
EPS (adj)	-52 %	>100%	3 %	15 %	-45 %	9 %	13 %	12 %

Balance sheet (NOKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Goodwill	-	44	67	133	133	133	133	133
Deferred tax asset	11	23	34	27	23	23	23	23
Licences, property, plant & equipment	44	446	378	424	381	341	324	318
Non-current assets	56	513	478	584	536	496	480	473
Inventory	2	1	-	-	-	-	-	-
Receivables & Other current assets	39	327	248	222	204	210	213	216
Cash and cash equivalents	52	222	68	47	67	43	21	38
Current assets	94	550	316	270	270	253	233	253
Total assets	150	1,062	794	854	806	750	713	727
Shareholders equity	14	162	161	128	159	131	143	155
Total equity	14	162	161	128	159	131	143	155
Deferred tax liability	-	57	38	34	21	21	21	21
Long-term interest bearing debt	1	416	177	290	230	190	140	140
Non-current liabilities	1	473	215	325	252	212	162	162
Current interest bearing debt	6	64	55	86	94	94	94	94
Trade payables & Other current liabilities	128	365	363	315	302	313	315	315
Current liabilities	135	428	418	400	396	407	409	410
Total liabilities	136	901	633	725	648	619	570	571
Total liabilities and equity	150	1,062	794	854	806	750	713	727
Working capital	-87	-37	-115	-92	-98	-103	-102	-100
Net IB debt	-45	258	165	329	258	241	214	197
Capital employed	15	634	376	453	410	342	304	317
Net IB debt / equity	-330 %	159 %	102 %	256 %	163 %	185 %	150 %	126 %
Equity / total assets	9 %	15 %	20 %	15 %	20 %	17 %	20 %	21 %

Share data	2012	2013	2014	2015	2016	2017E	2018E	2019E
Shares outstanding, year end (mill.)	19.4	23.3	23.3	23.3	23.3	23.3	23.3	23.3
Share price, year end (NOK)	24.50	42.40	42.50	33.80	28.10	22.80	22.80	22.80
Market cap (NOKm)	475	987	990	787	654	531	531	531
Enterprise value (NOKm)	430	1,245	1,154	1,115	912	772	745	727
EPS rep. (NOK)	1.89	2.53	3.09	2.51	1.39	1.78	3.26	3.93
EPS adj. (NOK)	1.58	4.62	4.77	5.48	3.01	3.29	3.72	4.17
DPS (NOK)	-	2.00	1.25	4.00	1.00	2.00	3.00	3.50
Dividend payout ratio*	0 %	43 %	26 %	73 %	33 %	61 %	81 %	84 %

*Calculated using adjusted Net Earnings

Valuation	2012	2013	2014	2015	2016	2017E	2018E	2019E
EV/Sales	1.1	1.0	0.9	0.9	0.7	0.6	0.5	0.5
EV/EBITDA	4.3	4.6	3.7	4.6	4.0	3.4	3.1	2.9
EV/EBIT	8.2	13.0	7.8	14.0	16.5	11.7	6.9	5.7
P/E	13.0	16.8	13.8	13.4	20.2	12.8	7.0	5.8
P/B (excl. goodwill)	34.8	8.4	10.5	neg	25.2	neg	53.2	23.3

Growth (YoY)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Revenues	6 %	204 %	2 %	1 %	6 %	0 %	3 %	1 %
EBITDA	-20 %	172 %	14 %	-22 %	-6 %	2 %	4 %	4 %
EBIT (adj)	-32 %	144 %	33 %	-33 %	-17 %	9 %	9 %	11 %
Pre-tax profit (rep)	50 %	18 %	53 %	-26 %	-39 %	30 %	83 %	20 %
Net profit (adj)	24 %	61 %	22 %	-19 %	-45 %	28 %	83 %	20 %
EPS (rep)	24 %	34 %	22 %	-19 %	-45 %	28 %	83 %	20 %
EPS (adj)	-52 %	192 %	3 %	15 %	-45 %	9 %	13 %	12 %

Margins	2012	2013	2014	2015	2016	2017E	2018E	2019E
EBITDA	24.3 %	21.7 %	24.2 %	18.9 %	16.6 %	16.9 %	17.0 %	17.6 %
EBIT (adj)	14.1 %	11.3 %	14.7 %	9.8 %	7.6 %	8.3 %	8.8 %	9.7 %
Pre-tax profit	12.4 %	4.8 %	7.3 %	5.3 %	3.1 %	4.0 %	7.1 %	8.5 %
Net profit	8.9 %	4.7 %	5.7 %	4.6 %	2.4 %	3.0 %	5.4 %	6.4 %

Profitability	2012	2013	2014	2015	2016	2017E	2018E	2019E
ROE*	>100%	>100%	>100%	>100%	>100%	>100%	>100%	>100%
ROCE*	>100%	43.3 %	36.9 %	30.2 %	24.0 %	30.1 %	38.2 %	44.2 %
Dividend yield	0.0 %	4.7 %	2.9 %	11.8 %	3.6 %	8.8 %	13.2 %	15.4 %

* Goodwill excluded

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for NextGenTel Holding during the previous 12 months:

Date	Recommendation	Target price (NOK)
01/03/2017	Buy	32.00
10/02/2017	Buy	32.00
09/11/2016	Buy	34.00
25/10/2016	Buy	37.00
05/09/2016	Buy	36.00
23/08/2016	Buy	34.00
06/05/2016	Hold	33.00
25/04/2016	Buy	43.00
18/02/2016	Hold	38.00
08/02/2016	Buy	49.00

Valuation

To arrive at our share price target we have used the average of discounted cash flow, dividend discount models and comparable company analysis with a 25% discount.

Risks

The main risks to our target price on NextGenTel Holding are the following:

- Sharper than our forecast decline of VoIP subscribers;
- Faster than anticipated decrease in VoIP margins;
- Tougher competition in mobile market;
- Lack of growth in the broadband segment;
- Acquisitions uncertainty.

Sources

The sources used in the preparation of this report were: NextGenTel Holding, Oslo Stock Exchange, Infront, Macrobond, Thomson Reuters Eikon.

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Norne Securities' general recommendations – Buy, Hold and Sell – are based on the expected absolute return on the financial instrument within the next 12 months, which equals to an upside to the target price, in combination with a risk profile. The target price represents the price level which the analyst expects the financial instrument to trade at within the coming 12 months. The table below shows the ranges of returns under different risk levels, based on which the recommendation is being determined:

Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

In addition to the general recommendations, “Trading Buy” and “Trading Sell” recommendations can be used in the case where the analyst predicts a short term share price performance different from the twelve-month general recommendation. “Trading Buy” is given when the share price is expected to rise and “Trading Sell” is given when the share price is expected to fall in the short term (several days to several weeks horizon).

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

TARGET PRICE AND UPDATES

Target prices may be based on one or several valuation methods, for instance, the discounted cash flow (DCF) analysis or applying “fair” pricing multiple(s) based on historical valuation or peer pricing level. Target price may not necessarily equal to the “fair value” of the financial instrument – certain discount or premium is possible due to various reasons, depending on the analyst’s view of what the price may be within the 12 months period. Norne Securities AS plans to update the recommendation based on the following events: the target price is achieved; new accounting figures are released; any significant news on the company or its industry is announced.

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POTENTIAL CONFLICTS OF INTEREST

Norne Securities AS is a market maker in the shares of NextGenTel Holding

This report has been presented to the issuer before dissemination for a check of factual information. Amendments of factual information have been made following this.

Share holdings of Norne employees in NextGenTel Holding:

Responsible analyst(s)	0
All Norne analysts	0
All Norne employees	1,400
Norne Securities AS	0

The overview of share holdings is updated continuously. A list of total share holdings of the Norne Securities' employees and the date of last overview can be found on <https://www.norne.no/compliance/>. Shareholdings that Norne Securities AS owns as a result of own-account trading that is part of its investment services operations (such as market making) are not included in the table above.

Distribution of Norne Securities' recommendations during three months up till December 31, 2016:

	Buy	Hold	Sell
Total recommendations	75	31	4
% of total	68%	28%	4%
Corporate clients*	16	15	2
% of corporate clients*	48%	45%	6%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

Note: In the table above, Trading Buy recommendation is treated as Buy, and Trading Sell is treated as Sell.

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