NextGenTel Holding: Dividend payments restored

- NextGenTel Holding reported their fourth quarter results on February 15th and numbers were close to our expectations.
- Revenue ended at NOK 330.0 million, representing a slight decrease YoY, but EBITDA ended at NOK 53.9 million, a 1.9% increase compared to Q4 2015.
- The company announced a dividend of NOK 0.50 per share, which will be the first dividend payment for more than a year.
- On 23 January 2017, the company sent a stock exchange notice informing the market about a tax issue, which is still open.
- Kvantel promises to deliver very strong growth in 2017 and has already announced two large contracts.
- The mobile business segment continues to develop very strongly and NextGenTel has grown its subscribers by 50% in the last year.
- Despite the expectations for an agreement between NextGenTel and Telenor regarding the revitalisation of the copper network, negotiations are continuing.
- We believe that the stock is very cheap and has been pushed down by the low trading volumes and the recent tax issue. We value NextGenTel at NOK 40.85 per share.

Name	NextGenTel Holding
TICKER	NGT.OL
Currency	NOK
Share price	24.90
# of shares	23,283,180
Market Cap	573 m
Net IB Debt	258 m
Enterprise value	831 m
Recommendation	BUY
Risk	Medium
Target price	40.85

SWOT

- \+ Stable financial performance
- \+ Dividend payment of NOK 0.50 per share
- \+ Growth opportunities within Norwegian mobile and broadband markets
- – Declining customer base
- – Declining international revenues
- – Fierce competition within broadband and mobile.

MNOK	Sales	EBITDA	EBIT	EPS	DPS	SGRTH	EBITDA margin	NIBD/ EBITDA	EV/ Sales	EV/ EBITDA	P/E
2014A	1260	308	148	3.09	2.20	1.0%	24.5%	0.13	0.80	3.3	9.4
2015A	1279	236	80	2.55	4.00	1.5%	18.4%	0.26	0.79	4.3	11.6
2016A	1359	226	55	1.41	0.50	6.2%	16.6%	0.14	0.74	3.7	17.8
2017E	1390	254	84	2.33	2.00	2.3%	18.3%	0.11	0.72	3.3	12.0
2018E	1418	270	99	2.81	3.00	1.2%	19.0%	0.09	0.71	3.1	6.9
2019E	1436	275	105	3.05	3.00	1.2%	19.2%	0.07	0.70	3.0	6.6

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Table of contents

INVESTMENT SUMMARY

Stable financial performance

NextGenTel holding ended the fourth quarter with revenue of NOK 330.0 million compared to NOK 347.1 million in the same quarter of the previous year – 4.9% decrease year-on-year. However, EBITDA showed an improvement and ended 1.9% higher than in the fourth quarter of 2015 - NOK 53.9 million vs. NOK 52.9 million.

Given the lower revenue, but higher EBITDA, the EBITDA margin was 16.3% - more than 1% higher than in Q4 2015. The operating profit was on par – NOK 10 million. The result in Q4 2016 was also affected by amortisation costs of NOK 12.1 million related to business combinations. Profit after tax was NOK 6.7 million (NOK 10.1 million).

Figure 1.0: NextGenTel Holding performance

MNOK	Q4 2016	Q4 2015	% Change
Revenues	330.0	347.1	-4.93%
Gross profit	154.4	172.9	-10.70%
Gross margin	46.80%	49.80%	
EBITDA	53.9	52.9	1.89%
EBITDA margin	16.33%	15.24%	

The result was not a surprise as the company's revenues have been slowly declining for a number of quarters. The consistent driver behind the falling revenues is NextGenTel's international operations, which are diminishing. The company has no intentions to grow its international presence, but still enjoys positive profit in Switzerland, Denmark and the Netherlands.

A slightly worrying factor is the decrease in domestic customers in the fourth quarter compared to the third quarter. The consumer segment had a decrease of 7,000 subscribers, while the business segment saw an increase of 1,000 RGUs.

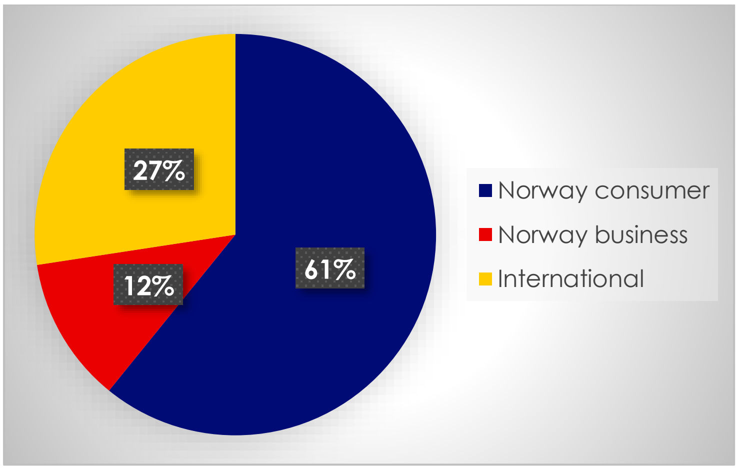
The company has a stable financial position with NOK 66.6 million in cash and cash equivalents in addition to a NOK 50 million overdraft facility.

Customer base development

The total customer base in Norway was 278,000 at the end of Q4 2016 compared to 284,000 at the end of Q3 2016 - 2.1% decrease from the previous quarter. The decrease mainly came from the consumer segment – decrease of 7,000 units, while the business segment added 1,000 RGUs.

The fall in customer numbers is consistent with the previous quarter, which saw 2.5% decrease. While overall customer number falls, the positive news is that the company is grwoing its business segment, which generates a significantly greater revenue per unit. NextGenTel launched a number of services for the business segment in 2016 and seems to have a more stable position there compared to the consumer segment.

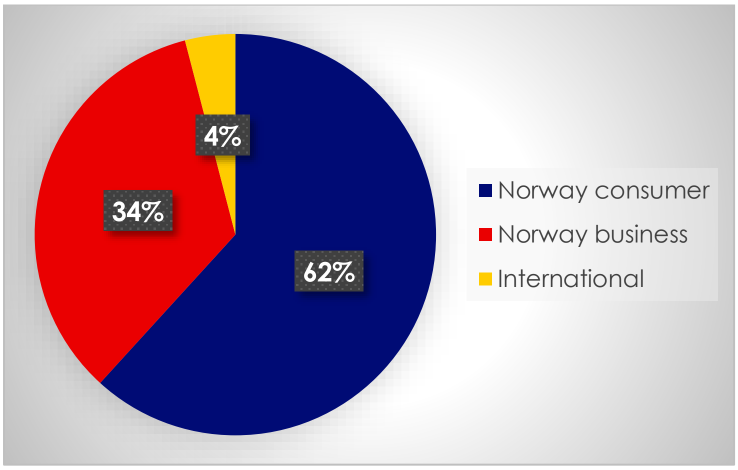
Figure 1.1: NextGenTel Holding, customer base breakdown, Q4 2016



Source: NextGenTel 2017

While the business segment only represents 12% of the overall customer base, it contributes more than a third of the revenues. On average, each unit in the business segment brings three-fold the revenue of an average unit in the consumer segment. Thus, the company has a clear incentive to become a premium provider for the business segment. The business mobile subscriber base has grown most significantly from 10,900 in Q4 2015 to 16,400 subscribers in Q4 2016 – 50% growth YoY.

Figure 1.2: NextGenTel Holding, revenue breakdown, Q4 2016



Source: NextGenTel 2017

While certain parts of the consumer segment have been underperforming, NextGenTel saw growth in its fiber access subscribers from 18,300 to 19,500 during Q4. The consumer mobile subscriber base counted 40,000 subscribers at the end of Q4.

The customer base in the international markets declined by 5,800 customers in Q4, mainly driven by reduction of white label customers in the Netherlands.

Mobile and broadband grow strongly

Looking at the entire 2016, the company performed well in key areas such as mobile and broadband, driven by both organic and inorganic growth. Revenues from mobile increased by NOK 40 million, which is equal to a growth rate of 27%. Broadband revenues increased from NOK 862 million in 2015 to NOK 920 million in 2016 – NOK 58 million increase and 6.7% growth rate.

VoIP expectedly decreased by NOK 11 million and wholesale revenue also fell by NOK 7 million, which slowed the company's growth. Going forward, we expect VoIP's diminishing revenues to be more than compensated by the growth of mobile and broadband.

MNOK	2015	2016
VoIP	222	211
Mobile	145	185
Broadband (incl TV)	862	920
Wholesale	22	15
Other	28	27
Total	**1279**	**1359**

Kvantel development

The newly acquired part of NextGenTel - Kvantel performed strongly in 2016. Revenues were consistent and the segment managed to contribute NOK 19 million in revenue for the year.

The company implement a number of cost-saving initiatives in the first two quarters of the year to reduce COGS and boost EBITDA, which produced the planned results. The only unexpected item was the higher CAPEX due to higher capitalization of development expenses and capex related to new customer contracts.

We believe that investors should carefully follow Kvantel in 2017 as it has significant business potential. The company is expected to continue to improve its operational efficiency and we believe that performance will be boosted further.

In addition, the segment has already delivered major contracts in 2017. This includes a 3-year agreement with Nordic Choice Hotels and a contract with Phonect, which will have an estimated annual revenue of NOK 60 million.

NOK million	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Total revenue	45.8	44.3	45.2	45.5
Gross profit	19.5	17.5	18.2	17
Gross margin	42.50%	39.60%	40.30%	37.30%
Total OPEX	-13.6	-11.3	-13.1	-15.2
EBITDA	5.9	6.2	5.1	1.8
EBIT	2.3	3	2.1	-1.4
CAPEX	5.8	6.2	2.4	1.9

Dividend payments have been restored

The board has decided to distribute a dividend of NOK 0.50 per share. The share will be traded ex dividend from 20 February 2017 and the dividend will be settled on 8 March 2017. Future dividend distribution will depend on the prevailing investment plans, financial covenants and necessary financial flexibility.

Tax issue

On 23 January 2017, the company sent a stock exchange notice informing the market about a report from a tax audit performed by Norwegian tax authorities (Skatt øst).

The issue is related to the taxation of the Company's wholly-owned Swiss subsidiary Telio SA and dividends paid from Telio SA to the Company. Total dividends received from Telio SA in the relevant period amount to NOK 202.9 million. Skatt øst is claiming that Switzerland should be regarded as a low tax jurisdiction and that NextGenTel Holding ASA therefore should have paid Norwegian corporate income tax on the dividends received from Telio SA.

The Company has based its practice on the assumption that the taxes paid by Telio SA have been sufficient (minimum 2/3 of the equivalent Norwegian corporate income tax rate) amounting to NOK 21.3 million in the relevant period, and consequently the dividends received by the Company should not be subject to Norwegian corporate income tax as it is comprised by the participation exemption method ("Fritaksmetoden").

A meeting with the tax authorities was held on 7 February to present the company's view. The company has aimed at paying sufficient tax in Switzerland in order to not be regarded as a low tax jurisdiction. A key and principal matter for the tax authorities is if Telio SA should be considered being in a low tax jurisdiction due to the general effective tax rate for comparable companies (which is significantly lower than the effective tax rate for Telio SA).

It is the company's assessment that, in the event of a final outcome where NextGenTel Holding ASA has to pay 28% tax on dividends received for the relevant period, a tax credit will be given for the tax paid in Switzerland. 28% tax equals approximately NOK 56 million and the credit deduction is approximately NOK 45 million. In such a scenario the net risk amounts to NOK 11 million.

The tax issue had an immediate negative effect on the company's share price, which fell by more than 6% in only a few hours after the stock notice on 23rd January. However, we believe that the market overacted to the news as even in the worst case the financial burden on NextGenTel is unlikely to have a significant impact on the company's operations.

Valuation: Very attractive stock

NGT is a very attractive share at the current price level for several reasons. Firstly, the stock seems to be undervalued due to low trading volumes. As a company in its maturity, NextGenTel demonstrates fairly predictable performance and therefore there are less speculations around the stock and less events that trigger spikes in trading. However, this also makes NGT a safe long-term investment.

Secondly, NGT has been a good dividend stock for a number of years. Last year, the company temporarily paused dividend payments in order to comply with a financial rule. Now, NextGenTel has resumed paying dividends – something the company promised to do in Q4 2016 and kept its promise. While future dividends will depend on good performance, clearly the company has the intention to continue to pay dividends when possible.

Thirdly, we believe that the company's share price has been temporarily pushed down due to the tax issue. The announcement from 23rd January had a significant downward effect on the stock due to the uncertainty it created. Regardless of the outcome of the tax issue, we believe that the stock will recover once the case has been settled.

Scenario	Fair value	Probability
Base	42.28	50%
Worst	21.15	25%
Best	57.69	25%
Weighted Fair Value per share	**40.85**	

Going forward, NextGenTel has clear growth opportunities. While some segments will decline, such as VoIP and international markets, the company exhibits growth in broadband and mobile. The business segment is gaining very good momentum and promises to deliver strong growth in 2017.

In addition, the company has a significant opportunity in the modernization of the copper network. Negotiations between xDSL operators are still ongoing (Telenor, Broadnet and NextGenTel), but it is expected that an agreement will be reached by the end of Q1.

Due to a combination of factors, NGT is a clearly undervalued stock. If anything, we believe that the company may have become an acquisition target for some of the other players in the broadband market. NextGenTel's footprint in the fiber market and the company's growing presence in the business segment make for an attractive business case, which currently trades at a discounted rate.

ESTIMATES

Profit and Loss

MNOK	2014A	2015A	2016A	2017E	2018E	2019E
Revenues	**1260**	**1279**	**1359**	**1390**	**1418**	**1436**
COGS	-586	-624	-719	-725	-734	-743
Gross Profit	674	655	640	665	684	693
SG&A	-366	-419	-414	-411	-414	-418
EBITDA	**308**	**236**	**226**	**254**	**270**	**275**
Depreciation&Amortisation	-160	-156	-171	-170	-171	-170
Non-recurring items	0	0	0	0	0	0
EBIT	**148**	**80**	**55**	**84**	**99**	**105**
Net financial items	-56	-12	-13	-13	-13	-12
Pretax Profit	**92**	**68**	**42**	**71**	**86**	**93**
Tax	-21	-10	-10	-17	-21	-22
Reported after tax profit	**72**	**58**	**32**	**54**	**65**	**71**
Extraord. items	0	0	0	0	0	0
Net Income	72	58	32	54	65	71
EPS rep.	**3.09**	**2.55**	**1.41**	**2.33**	**2.81**	**3.05**

Balance Sheet

MNOK	2014A	2015A	2016A	2017E	2018E	2019E
Goodwill	67	67	133	133	133	133
Intangible assets	203	198	186	181	174	170
P,P&E	174	170	195	192	188	183
Financial assets	34	34	22	20	19	18
Account receivables	248	230	204	210	216	210
Inventory	0	0	0	0	0	0
Cash and cash equivalents	68	80	66	73	82	94
Total assets	**794**	**779**	**806**	**809**	**812**	**808**
Equity	163	178	159	168	176	196
Minorities	0	0	0	0	0	0
Interest bearing debt	**213**	**178**	**251**	**225**	**210**	**194**
Account payables	190	192	206	223	233	224
Other liabilities	228	232	190	193	196	194
Total equity and liabilities	**794**	**779**	**806**	**809**	**815**	**808**

VALUATION

DCF Valuation

Scenario	Fair value	Probability
Base	42.28	50%
Worst	21.15	25%
Best	57.69	25%
Weighted Fair Value per share	**40.85**	

WACC calculation	
Debt ratio	**32.1%**
Cost of Debt (before tax)	5.0%
Cost of Debt (after tax)	**3.8%**
Risk free rate	3.0%
Beta	1.2
Market risk premium	6.0%
Cost of Equity	**10.2%**
WACC	**8.1%**

DCF Additions	
Net IB Debt	258 MNOK
Liquidity discount	10%

Peer valuation

USDm	EV/EBIT			EV/EBITDA			P/E			Market
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	Cap.
NextGenTel Holding	14.2	10.2	6.2	3.7	3.3	3.1	17.8	12	6.9	108
Telenor	9.6	9.2	8.8	5.5	5.4	5.2	12.6	12.1	11.3	30,684
TeliaSonera	16.7	16.5	16.2	9.1	9.2	9.1	12	11.9	11.4	26,403
Tele2	34.2	18.2	13.6	9.4	8	7.1	28.7	20.1	15.1	5,223
TDC	15.7	15.4	15.1	6.9	6.9	6.8	12.1	12.8	12.4	8,779
Average	19.10	14.8	13.4	7.7	7.4	7.1	16.3	14.2	12.5	
Premium (discount)	-26%	-30%	-54%	-52%	-55%	-56%	9%	-16%	-45%	

Source: Infinancials, 2016

Top 20 shareholders

	Name	Shares	%
1	VEEN A/S T.D.	2,419,704	10,39%
2	XFILE AS	1,500,000	6,44%
3	STOREBRAND VEKST VERDIPAPIRFOND	1,453,729	6,24%
4	BANQUE PICTET & CIE SA	1,260,000	5,41%
5	ZONO HOLDING AS	1,132,894	4,87%
6	VERDIPAPIRFONDET ALFRED BERG NORGE	972,060	4,17%
7	STATE STREET BANK AND TRUST COMP	965,998	4,15%
8	JPMORGAN CHASE BANK, N.A., LONDON	837,439	3,60%
9	DNB NOR MARKETS, AKSJEHAND/ANALYSE	769,565	3,31%
10	SYNESI AS	750,000	3,22%
11	ZICO AS	680,000	2,92%
12	VERDIPAPIRFONDET STOREBRAND OPTIMA	594,730	2,55%
13	TIGERSTADEN AS	533,676	2,29%
14	MATHIAS HOLDING AS	500,000	2,15%
15	ARCTIC FUNDS PLC	453,257	1,95%
16	HORTULAN AS	451,905	1,94%
17	VERDIPAPIRFONDET DNB SMB	356,377	1,53%
18	DATUM AS	300,000	1,29%
19	CIPI LAMP UCITS SWEDBANK SMB	297,204	1,28%
20	STOREBRAND NORGE VERDIPAPIRFOND	276,431	1,19%
	Total number owned by top 20	**16,504,969**	**70.89%**
	Total number of shares	**23,283,180**	**100.00%**

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Indep Research: *In-depth corporate research.*

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Buy: The analyst expects the share to outperform its relevant benchmark index (OSEBX, OSESX etc) and its peer group.

Sell: The analyst expects the share to underperform its relevant benchmark index- and peer group.

Hold: The analyst sees no compelling investment rationale for a Buy- nor a Sell recommendation.

The Seven INDEP multiples

P/E
Market Value per share/ Annual earnings per share (EPS)

P/BV
Market value per share/ equity value per share

EV/S
Company market value + Net Interest bearing debt (NIBD)/ Annual sales

EV/EBITDA
Enterprise Value/Earnings before Interest Taxes Depreciation Amortisation

NIBD/EBITDA
Net Interest bearing debt/Earnings Before Interest Taxes Depreciation Amortisation

Debt/Equity
Interest bearing debt/goodwill-adjusted equity

ROIC
NOPLAT (Net Operating Profit Less Adjusted Taxes) / Invested Capital (Intangible assets + Net Working Capital)

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