GO Internet

Interims and forecast update

LTE network a GO-GO!

Telecoms

GO Internet's H1 results show steady expansion in subscribers with solid average revenue per user (ARPU). The roll-out of its 100Mbps equipment has now started and we expect to see acceleration in the pace of growth as a result. The shares do not yet reflect the progress GO Internet is making in its current regions and the possibility that it will be allocated additional spectrum next year, which would enable it to expand further afield, adds further upward valuation potential.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (c)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
12/13	2.6	0.9	(1.1)	10.1	29.1	N/A
12/14	3.9	1.4	0.7	6.7	18.7	N/A
12/15e	5.6	2.2	3.9	4.7	11.9	87.9
12/16e	7.9	3.7	17.6	3.3	7.1	19.5

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H1 results show steady expansion of GO's network

H1 subscribers increased at a steady rate to reach 27.2k at the end of June (+41% y-o-y) and ARPU remains firm. This is reflected in H1 results, which saw revenues increase 36% to €2.5m and an EBITDA margin increase to 36% (34%: H114). While a very solid performance, delays in issuing permits for the installation of 100Mbps kits meant that GO was unable to roll these out as quickly as hoped; consequently, subscriber growth was constrained more by capacity than demand and was behind our estimates. ARPU, on the other hand, is holding up considerably better than we expected despite early subscribers having to revert to higher prices as their initial two-year discounted contracts expire.

LTE network roll-out should accelerate growth

Permits for the LTE installation have now been awarded, and alongside this GO has secured additional strategic sites via a new relationship with EI Towers. The 100Mbps kits support a better service, higher ARPUs and more capacity, and we expect to see a considerable uptick in take-up in Q4. We update our forecasts to reflect the slower H1 roll-out; however, we reverse our previous assumption of a 1pp decline in annual ARPU – the net effect of which is a 7% and 4% reduction in our FY15 and FY16 EBITDA forecasts respectively.

Valuation: Spectrum auctions adds option value

Within its existing footprint in the Marche and Emilia-Romagna regions of Italy, we forecast a CAGR in EBITDA to FY17 of 40%. Despite this, the shares trade on an FY16 EV/EBITDA of 7.1x, towards the low end of peers, while our DCF (based on a 12% WACC and an assumption of 100k peak subscribers) supports upside to €4.3 per share. In addition, we believe that GO is a strong candidate to be awarded additional spectrum in auctions tabled for 2016. This would enable it to expand its footprint in and beyond its existing region, and adds a considerable 'option value' to the share.

25 September 2015

Price	**€3.43**
Market cap	**€21m**
Net debt (€m) at 30 June 2015	5.2
Shares in issue	6.0m
Free float	31%
Code	GO
Primary exchange	AIM Italia
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(2.6)	(3.1)	75.9
Rel (local)	(3.2)	9.2	73.3
52-week high/low		€3.9	€1.9

Business description

GO Internet provides internet and telephone services using fourth-generation (4G) wireless technology. The service is currently offered in the Emilia-Romagna and Marche regions of Italy, where GO has an exclusive right of use for 42MHz in the 3.5GHz frequency band known as 4G.

Next event

Full-year results — February 2016

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Edison profile page

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Interim update: Considerable progress made

H1 revenues increased 36% to €2.5m, implying a broadly stable ARPU, which is very encouraging given subscribers that signed early in the network launch will now be coming out of their two-year discounted contract period, reverting to full prices. EBITDA of €897k grew 44% y-o-y as more subscribers become profitable (non-box-related subscriber acquisition costs are expensed) and EBITDA margins expanded to 36% from 34% in the prior year. Net profit of €21k (vs a loss of €63k in H114) was after €155k of interest charges, reflecting the cost of the finance leases that was affected by FX movements. Period-end net debt of €5.2m (net of €1.3m cash) increased, as expected, from €2.7m at end-December 2014 – a result of €3.3m investment in CPEs and construction work (of which €2m was acquired via the new leaseback agreement with Huawei and will be installed in H2).

H115 – solid demand, capacity constrained

In December 2014, GO announced a $10m four-year deal with Huawei for the supply of 100Mbps base stations. The installation of these stations will have multiple benefits. For the customer, it will enable a higher-quality service, particularly in the home, and they support a higher density of customers per base station. Together, this should support a more rapid growth in the subscriber base – especially as the group comes into the seasonally important autumn period.

At the end of June, GO had an installed base of 645 base stations (482 at end-December 2014). While a considerable step up in coverage, these base stations relate to 7Mbps technology. Obtaining permits for the installation of 100Mbps LTE base stations took longer than envisaged, delaying the roll-out of the LTE network by a few months. This has constrained the rate at which GO has been able to add new subscribers. In H1 GO added a fairly consistent 600-700 net subscriber additions each month to reach 27.2k at the end of June, +41% y-o-y (since increased to 27.9k at end-September), a very respectable increase; however, with many of its 7Mbps base stations operating at capacity, delays in installing 100Mbps equipment have held back growth to a degree.

Exhibit 1: Results and forecast income statements

Income statement	2014	2014	2014	2015e
€000s	H1	H2	FY	H1
Subscribers	19,100	23,118	23,118	27,013
ARPU	16.8	16.4	16.5	16.1
4G data traffic revenue	1,763	2,080	3,843	2,419
Call traffic	31	25	56	22
Other income	23	27	50	33
Total revenue	1817	2082	3899	2474
Purchases	(851)	(929)	(1,780)	(1,158)
Other expenses		0		
Personnel costs	(341)	(422)	(763)	(419)
Total costs	(1,192)	(1,282)	(2,474)	(1,577)
EBITDA	625	800	1,425	897
EBITDA margin (%)	34.4	38.4	36.5	36.3
Amortisation	(481)	(571)	(1,052)	(628)
Other accruals	(25)	25		(35)
Extraordinary income/expenses	(1)	0	(1)	(58)
EBIT	118	229	347	176
Financial income/expenses	(136)	(156)	(292)	(154)
PBT	(18)	73	55	22
Tax	(45)	(3)	(48)	(1)
Net profit	(63)	70	7	21

Source: Company accounts, Edison Investment Research

LTE roll-out back on track – expect strong end to the year

Permits for the installation of the 100Mbps base stations have now been granted, and alongside this GO has secured access to additional strategic towers via an agreement with EI Towers (one of Italy's leading transmission tower companies). The LTE network started to be rolled out over the summer and first subscribers have come on board (at the higher price of €25/ month vs €22/ month for the 7Mbps service). The group recently rebranded (to emphasis its USPs of wireless connectivity, no landline and self-install modem) ahead of an autumn marketing campaign and we expect to see a significant acceleration in subscriber additions in the seasonally important Q4.

Forecasts: Increasing ARPU, reducing subscribers

While the delays in the LTE roll-out left subscriber numbers lower than we had expected at the interim, ARPU has held up considerably better. In a competitive market, we had forecast a 1% reduction in ARPU each year. However, we now expect ARPU this year and next to increase: early subscribers to the service are reverting to the €22 monthly fee as their initial discounted two-year period at €15 per month ends. GO is not seeing as much pricing and churn pressure from these subscribers as we had factored into our estimates (churn is running at around 8%). Furthermore, as new subscribers sign up to the 100Mbps service (priced at €25 per month) there will be additional support for ARPU.

We are reducing our year-end subscriber forecast to 32k (from 35k), but now assume a c 2% increase in ARPU this year and next. The net impact of these changes is to reduce our FY15 and FY16 revenue forecasts by €0.2m and €0.5m, respectively. While in FY15 we trim our EBITDA forecast by the same amount as revenues, in FY16, the lower revenue is compensated in part by a lower SAC (subscriber acquisition cost). We tweak our capex forecast down slightly to €3.4m and although we are forecasting net debt to reduce in H2 (as the sale and leaseback for the base station equipment starts to unwind), we anticipate that additional financing will be sought to give the group additional flexibility.

We summarise our forecast changes in Exhibit 2 and our full forecasts are presented at the back of this report.

Exhibit 2: Summary forecast changes (€000s)

	2015e			2016e			2017e		
	Old	New	Difference (%)	Old	New	Difference (%)	Old	New	Difference (%)
Revenues	5,788	5,605	(3)	8,454	7,915	(6)	11,637	10,832	(7)
EBITDA	2,394	2,235	(7)	3,893	3,722	(4)	5,815	5,457	(6)
PBT	635	264	(58)	1,584	1,463	(8)	2,914	2,629	(10)
Net income	487	232	(52)	1,138	1,054	(7)	1,999	1,804	(10)
Capex	(3,631)	(3,406)	(6)	(3,559)	(3,481)	(2)	(3,752)	(3,619)	(4)
Net debt	4,324	4,386	1	4,585	4,704	3	3,572	3,824	7

Source: Edison Investment Research

Spectrum auction – adds option value on the share

Earlier in the year, AGCOM, the Italian Telecoms Ministry, announced (at the request of the EU) its intention to release 200MHz of spectrum in the 3.6GHz frequency band (currently used by the military and broadcasters). Broadband penetration in Italy is behind the rest of Europe and the government is keen to add services in areas of the country that currently have poor or no reception ('digital divide' areas). As a result, AGCOM has decided that the spectrum will be allocated following a 'beauty contest' based on the applicants' business plans, rather than a fee for the spectrum. We see this as a good outcome for GO, whose business model is geared to providing a budget service in poorly-covered areas. Final terms are expected to be announced towards the end of the year, with the auction in the first half of 2016. At this stage it looks as though there may be both a national and a regional spectrum auction, and we would expect GO to apply for regional licences that complement its existing footprint.

On an FY16 forecast EV/EBITDA of 7.1x, we believe that the roll-out in GO's existing regional markets of Marche and Emilia-Romagna merits share price upside. Our base case DCF (using a conservative 12% discount rate, 100k peak subscriber numbers and a 2% perpetuity growth) factors in nothing for future licence or ecosystem developments and returns a value of €4.6 per share, 34% above the current share price. GO's business model renders its valuation fairly linear with its subscriber base. If it can secure additional licences (assuming no fee as tabled by AGCOM), there would be considerable upside potential to the group's growth prospects and, consequently, valuation.

Exhibit 2: Financial summary

€000s	2013	2014	2015e	2016e	2017e
Year-end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	2,645	3,899	5,605	7,915	10,832
Cost of Sales	(1,170)	(1,780)	(2,545)	(3,191)	(4,113)
Gross Profit	1,475	2,119	3,060	4,724	6,718
EBITDA	887	1,425	2,235	3,722	5,457
Operating Profit (before amort. and except.)	166	373	672	1,588	2,724
Intangible Amortisation	0	0	0	0	0
Exceptionals	(54)	(26)	0	0	0
Other	0	0	0	0	0
Operating Profit	111	347	672	1,588	2,724
Net Interest	(202)	(292)	(408)	(125)	(94)
Profit Before Tax (norm)	(36)	81	264	1,463	2,629
Profit Before Tax (FRS 3)	(90)	55	264	1,463	2,629
Tax	(10)	(48)	(32)	(408)	(826)
Profit After Tax (norm)	(46)	33	232	1,054	1,804
Profit After Tax (FRS 3)	(100)	7	232	1,054	1,804
Average Number of Shares Outstanding (m)	4.16	4.93	5.99	5.99	5.99
EPS - normalised (c)	(1.11)	0.67	3.87	17.60	30.10
EPS - normalised fully diluted (c)	(1.11)	0.67	3.87	17.60	30.10
EPS - (IFRS) (c)	(2.41)	0.14	3.87	17.60	30.10
Dividend per share (€)	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	55.8	54.3	54.6	59.7	62.0
EBITDA Margin (%)	33.5	36.5	39.9	47.0	50.4
Operating Margin (before GW and except.) (%)	6.3	9.6	12.0	20.1	25.1
BALANCE SHEET					
Fixed Assets	6,536	8,117	9,959	11,306	12,192
Intangible Assets	2,404	2,465	2,425	2,316	2,048
Tangible Assets	4,132	5,652	7,534	8,990	10,144
Investments	0	0	0	0	0
Current Assets	2,023	6,527	4,328	4,414	4,503
Stocks	166	814	830	847	864
Debtors	1,729	3,429	3,498	3,568	3,639
Cash	128	2,284	0	0	0
Other	0	0	0	0	0
Current Liabilities	(3,065)	(5,093)	(3,985)	(5,734)	(5,136)
Creditors	(1,384)	(3,839)	(2,481)	(3,132)	(2,600)
Short term borrowings	(1,681)	(1,254)	(1,504)	(2,603)	(2,537)
Long Term Liabilities	(4,515)	(3,911)	(3,022)	(2,242)	(1,427)
Long term borrowings	(4,368)	(3,771)	(2,882)	(2,102)	(1,287)
Other long term liabilities	(147)	(140)	(140)	(140)	(140)
Net Assets	979	5,640	7,280	7,745	10,131
CASH FLOW					
Operating Cash Flow	1,297	1,842	2,199	3,696	5,420
Net Interest	(202)	(292)	(408)	(125)	(94)
Tax	(10)	(48)	(32)	(408)	(826)
Capex	(1,844)	(2,670)	(3,406)	(3,481)	(3,619)
Acquisitions/disposals	0	0	0	0	0
Financing	0	4,324	0	0	0
Dividends	0	0	0	0	0
Other	(29)	6	0	0	0
Net Cash Flow	(788)	3,162	(1,646)	(318)	881
Opening net debt/(cash)	5,152	5,921	2,741	4,386	4,704
HP finance leases initiated	0	0	0	0	0
Other	19	18	1	0	0
Closing net debt/(cash)	5,921	2,741	4,386	4,704	3,824

Source: GO (historic), Edison Investment Research (forecasts)

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