EDISON

GO internet

Interim results

Full speed ahead on 5G

Telecoms

GO internet (GO) provides fixed wireless and fibre broadband to Italian regions with a population of 5.8 million people. New plans to accelerate the roll-out of its 5G network and reduce GO's reliance on WiMax should boost growth in the coming years. Recent 5G frequency auctions in Italy also imply a potential value of €3.45 per share for GO's 5G frequencies, net of group debt and the expected licence extension cost. Our DCF values GO at €1.67per share.

Year end	Revenue (€m)	EBITDA (€m)	EPS (c)	DPS (c)	EV/sales (x)	EV/EBITDA (x)
12/16	6.4	3.0	34	0.0	3.0	6.5
12/17	6.6	2.8	(12)	0.0	2.9	7.0
12/18e	6.8	2.7	(39)	0.0	2.8	7.2
12/19e	7.9	3.1	(33)	0.0	2.4	6.2
12/20e	8.9	3.7	(31)	0.0	2.2	5.2

Note: *EPS is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Multiples assume a €4m equity issue in Q119.

Faster roll-out of 5G to better utilise capex spend

GO plans to accelerate its 5G broadband roll-out to reduce reliance on both its obsolete WiMax network and lower-margin fibre services via the Enel network. We forecast this to boost its five-year subscriber CAGR from 14.3% to 15.8%, with use of existing WiMax infrastructure speeding the transformation and minimising capex.

Auctions imply €3.45/share value for GO frequencies

Recent 5G frequency auctions in Italy resulted in higher than expected sale prices for frequencies in the 3.4–3.6GHz spectrum range. This gives rise to an implied value of €51m for GO's 42MHz of 3.5GHz spectrum which, adjusted for group debt and the announced €2.7m extension fee, implies a net value of €3.45 per share. We note reports that auction participants may sue the Italian government to force it to bring 5G licence extension fees into line with the prices paid in the auctions.

Earnings forecast cut on slow H1/new 5G strategy

GO experienced a 2% y-o-y fall in H118 revenues, leading to a 9.8% y-o-y reduction in EBITDA to €1.4m. Revenues were affected by a slowdown in subscriber growth and high churn in the WiMAX network as well as a 10.5% decline in average revenues per user (ARPU) to €13.1. We have reduced our 2018 and 2019 EBITDA forecasts by 11% and 16%, respectively, to reflect these events and the expected delay to migrating customers from the WiMax network as a result of the new 5G strategy.

Valuation: DCF of €1.67/share and attractive multiples

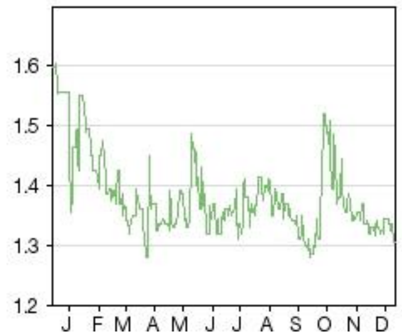
GO has announced a €5.0m share issue to fund expansion and its €2.7m licence extension fee. We have reduced our YE19 net debt by €0.5m to €3.4m to reflect the funds from the share issue, offset by bringing forward 5G network capex, the licence fee outlay and weaker cash flow forecasts. On a 2018e EV/EBITDA of 7.2x GO shares trade at an attractive 9% discount to domestic broadband peers. Our DCF valuation of €1.67 represents a 27% premium to the current share price.

12 December 2018

Price	**€1.31**
Market cap	**€18m**

Net debt (€m) at 30 June 2018	1.6
Shares in issue	13.5m
Free float	31%
Code	GO
Primary exchange	AIM Italia
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(2.2)	(0.4)	(17.8)
Rel (local)	1.6	12.8	0.9
52-week high/low		€1.6	€1.3

Business description

GO internet provides fixed broadband internet and telephone services using fourth and fifth-generation (4G & 5G) 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. In partnership with Enel Open Fiber, GO is also developing a 1Gbps fibre-to-the-home service across 23 cities.

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Strategy update: 5G boost from accelerated roll-out

5G network roll-out to take priority over LTE and Fibre

GO internet has recently implemented plans to roll out its 5G network more rapidly to upgrade customers to ultra-high-speed (up to 1Gbps) 5G services. Management intends to increase base station roll-out from the previously planned 75 to 95 in 2019 and to continue with seven to eight new base stations per month in 2020, compared with its previous schedule of six per month. This will give the group the option to shut down the WiMax network in 2020 and migrate all existing WiMax subscribers to the 5G network a year earlier than planned.

Advantages of the plan are firstly that the construction of the 5G network can be carried out over existing WiMax infrastructure, which will speed the roll-out and reduce build costs. The roll-out to existing WiMax service areas also enables GO to exploit existing brand awareness in the area. The group also intends to exploit new online channels to accelerate sign-ups.

The frequency sharing agreement with Linkem, Italy's largest supplier of fixed wireless broadband with networks covering 60% of Italy's population, also transforms the ROI picture. New 5G base stations using both GO's and Linkem's 5G frequencies will double the capacity of the existing WiMax base stations for only marginally more outlay and GO will benefit from Linkem's marketing to generate wholesale as well as retail revenues from the base stations. The resulting ability to offer unlimited data packages, as well as higher speeds, should also put it on a firmer footing when competing against other offerings, including fibre to the cabinet.

Migrating WiMax subscribers to 5G more rapidly should also have a positive impact on residential churn. GO currently offers most of its WiMax subscribers speeds of up to 12Mbps, which is similar to the speed offered by ADSL fixed lines. Nevertheless, a high proportion of GO's WiMax customers switch to other networks at the end of their promotional period, so the boost to either up to the 100–300Mbps speed provided by LTE or up to 1Gbps speed offered by 5G will present a powerful incentive to remain with GO and pay higher subscription fees.

Linkem has also helped fund GO's investment with a (pre-costs) €4m equity investment in H118. The deal also provides the potential for GO to generate significant wholesale revenues. Under the agreement, each company will pay the other €10 per customer, per month for hosting the other's customers on their networks. GO sees the potential to gain as many as 5,000 new wholesale subscribers from Linkem in 2019, representing a c €0.6m pa boost to revenues.

LTE investment to continue, lower priority to be given to fibre

Despite the new 5G strategy, GO remains committed to further the expansion of its LTE fixed wireless network, which is currently growing at the rate of 500 (net) new subscribers a month. The LTE network offers substantially higher speeds than the now-obsolete WiMax system and provides the ability to attract customers in areas outside the 5G network. Recently, the revenue generation potential of the network has been affected by churn in business subscribers to faster networks. Nevertheless, with speeds of 100–300Mbps, the network remains attractive to residential subscribers, particularly in rural areas, so migrating some subscribers from WiMax to LTE and recruiting new LTE subscribers remains an attractive proposition.

Management now also expects slower growth in fibre subscribers as a result of the new 5G strategy. The deal with Enel Open Fiber enables GO to add subscribers to the Enel network in return for a wholesale line rental charge, giving rise to an EBITDA margin in the mid-30s in percentage terms. The economics of the 5G roll-out, including the absence of wholesale line costs and the added incentive to fill capacity rapidly means the group will focus its marketing spend more heavily in that area.

5G auctions imply GO frequencies are worth €51m

Exhibit 1: Italian 5G frequency auction – implied value of GO's frequencies

	TIM	Vodafone	GO internet Current	GO internet Extension	GO internet With extension
Frequency spectrum (GHz)	3.7	3.7	3.5	3.5	3.5
Bandwidth (MHz)	80	80	42	42	42
Years duration from 1 January 2019	19	19	4.5	6.5	11
Licence area population	60.6	60.6	6.0	6.0	6.0
Sale price TIM/VOD/implied value GO frequencies (€m)	1694	1685	20.8	30.0	50.8
Implied value of GO frequencies net of €2.7m licence fee and net debt (€m)*					*46.4*
Implied value of GO frequencies per share (€)			1.54	2.23	3.77
Implied value of GO frequencies net of €2.7m licence fee and net debt per share (€)*					*3.45*

Source: TIM, Vodafone, GO internet. Note: *At 30 June 2018.

The 5G frequency auctions in Italy that were completed in early October resulted in higher than expected sale prices for frequencies in the 3.4–3.6GHz spectrum range. GO's 3.5GHz frequencies are part of the same band of frequencies being used to launch 5G as the 3.7GHz frequencies sold at auction, and can be considered functionally equivalent.

TIM and Vodafone each paid €1.69bn for Italy-wide 80MHz blocks of 3.7GHz frequencies for a term of 19 years. Adjusting for differences arising from population coverage and duration[1] (see Exhibit 1), we calculate that these sales imply a potential value of €20.8m for GO's current rights to 42MHz in the 3.5GHz spectrum, which run until 30 June 2023.[2] We calculate a further value of €30.0m for the use of the frequencies, which was recently granted by the Italian government under the extension for a further 6.5 years to end-2029.

We calculate the implied value of GO's existing frequencies (ie excluding the planned extension) at €20.8m or €1.54 per share. If we include the extension to 2029, this rises to €50.8m, or €3.77 per share. Assuming that the extension fee remains at the €2.7m set by the government (see below), the implied value of the group's frequencies to 2029 net of debt rises to €46.4m or €3.45 per share. These values do not take into account the value of the operations and other non-frequency related parts of the business, including the group's fixed wireless infrastructure and customer base.

Uncertainty over the licence fee

GO's licence extension was approved this summer, a few months before the auction, with the government writing to GO stating that the charge for the 6.5-year extension to end-2029 would be €2.7m.

The procedure to extend the licence as undertaken by the company included the following steps.

- GO internet asked the Ministry of Economic Development (MiSE) to extend the licences won in 2008;
- In April 2018, after a transparent administrative procedure, with a public consultation launched by the competent NRA, the company obtained a favourable opinion by AGCom on the renewal of its rights of use till December 2029;
- In July 2018 MiSE wrote to the company stating the existence of conditions for a renewal of rights of use of 3.4-3.6 GHz for 40 MHz of contiguous spectrum;

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1 Calculated as the average price paid in auction x population of GO's licence area/population of Italy x years duration of GO's licence/duration of auctioned licences x bandwidth of GO/bandwidth of auctioned licence. For GO's licence extension, this is (1,694+1,685)/2 x 6.0/60.6 x 6.5/19 x 42/80 = 30.0.

2 It should be noted that the values would be 37% higher applying a premium in line with the average GDP per capita of the inhabitants of GO's licence regions vs Italy as a whole (source: Comuni Italiani, Istituto Nazionale di Statistica).

- In October 2018 Go internet submitted to MiSE its acceptance of the technical and regulatory conditions established by MiSE;
- In November 2018 MiSE wrote to the company asking for a payment of about €2.7m, to be paid by the deadline of 31 January 2019, for the extension of the rights of use of 3.4-3.6 GHz band until December 2029. The fee was established by AGCom and MiSE on the basis of the minimum price for the assignment of the 3.6-3.8 GHz band during the 5G auction.
- After this payment, Go Internet understands that the rights of use will be considered as renewed and there will be a formal decree by competent authorities.

Despite the significant gap between this price and the amounts raised at auction for similar frequencies, GO has obtained a legal opinion that this letter should bind the government to charging no more than this sum. A recent compact with the government to bring forward the licence payment to end January 2019 looks set to further secure the agreement.

However, it does appear that the government will face pressure from the participants in the frequency auction in the summer to bring the charge to extend the frequencies in line with the prices achieved in the auction. On 13 November, TeleGeography reported that TIM had joined Vodafone and Iliad Italy in threatening legal action against the Italian telecoms regulator (Agcom) in Italy's regional courts if it proceeded with its plans to extend the 3.5GHz wireless licences held by Tiscali, GO internet, Linkem and Mandarin.

We believe that the Italian government has a strong interest in enabling Italy's regional broadband operators to continue to use 5G frequencies to provide the population with high speed broadband services in rural areas. As such, we believe that there is a will within the government to continue with the issue of licence extensions at the agreed price.

Nevertheless, in view of these announcements by TIM, Vodafone and Iliad, it is not possible to rule out a period of uncertainty regarding the licence fee payment or the risk of the government being required to increase the renewal fee charged to GO, potentially to the figures shown in Exhibit 1, under pressure from the courts.

Interim results: Churn affects revenues and margins

Exhibit 2: Interim results summary

€000s	H118	H117	Change (%)	H217
Total subscribers (000)	43.5	40.5	7.5	41.9
Wi-Max	32.40	N/A	N/A	33.22
LTE	10.45	N/A	N/A	8.38
5G	0.00	N/A	N/A	0.00
Total wireless (000)	**42.85**	**40.50**	**5.8**	**41.60**
Total fibre (000)	0.70	0.00	N/A	0.60
ARPU (ex-VAT) (€)	13.1	14.7	(10.5)	12.6
Revenues	**3,422**	**3,492**	**(2.0)**	**3,120**
EBITDA	**1,396**	**1,547**	**(9.8)**	**1,220**
EBITDA margin (%)	40.8%	44.3%	N/A	39.1%
D&A	(1,483)	(1,285)	15.4	(1,375)
Normalised operating profit	**(87)**	**262**	**N/A**	**(155)**
Normalised operating profit margin (%)	(2.5%)	7.5%	N/A	-5.0%
Normalised PBT	**(269)**	**106**	**N/A**	**(278)**
Reported PBT	**(709)**	**(26)**	**N/M**	**(279)**
Normalised net income	(61)	113	N/A	(235)
Reported net income	**(501)**	**(19)**	**N/M**	**(236)**
Normalised basic EPS (€)	(5.2)	10.7	N/A	(22.2)
Normalised diluted EPS (€)	(43.1)	(1.8)	2,306.3	(22.2)
Reported basic EPS (€)	(43.1)	(1.8)	2,306.3	(22.2)
Dividend per share (€)	0.00	0.00	N/A	0.00
Capex	**1,724**	**1,587**	**8.6**	**2,218**
Net debt/(cash)	1,638	4,749	(65.5)	4,479

Source: Company data, Edison Investment Research

GO reported a 2% decline in H118 revenues to €3.4m and a 9.8% decline in EBITDA to €1.4m, leading to a widening in reported pre-tax losses to €0.7m from €26k in H117.

Revenues were hit by a slowdown in annual subscriber growth from 9.5% in 2017 to 5.8% and a 10.5% decline in ARPU to €13.1. The decline in subscriber growth was principally due to ongoing subscriber churn from the obsolete WiMax network with net subscriber losses recorded at 137 per month during H118. The group nevertheless achieved overall subscriber numbers due to average net monthly additions of 345 in the 4G LTE network.

The decline in revenue was in part offset by cost efficiencies and a reduction in the use of consultants, which led to an 8% reduction in personnel costs. As a result the decline in EBITDA, margin was held at 3.5pp (to 40.8%) and the EBITDA decline was kept at 9.8%.

Capex rose 8.6% y-o-y to €1.7m as the group intensified spending on the LTE and 5G networks to take full advantage of the Linkem frequency sharing agreement. With the help of the €4m equity investment from Linkem in H118, net debt was reduced 66% to €1.6m at end-June.

D&A expenses rose 15% in H1 to €1.5m, reflecting the increase in network capex since the start of 2017, resulting in a normalised operating loss of €87k (H117: €262k profit). Pre-tax losses increased further to €709k (H117: €26k) as a result of doubtful debt and other provisions rising from €103k in H117 to €356k, reflecting the difficult economic climate in Italy.

Earnings outlook: 5G strategy delays rise in ARPU

Exhibit 3: Change in earnings forecasts

€000s	FY17	H118	FY18e		Change y-o-y	Change f'cast	FY19e		Change y-o-y	Change f'cast
	Actual	Actual	Old	New	(%)	(%)	Old	New	(%)	(%)
Total subscribers (000)	**42.2**	**43.5**	**47.2**	**45.2**	**7.0**	**(4.4)**	**56.0**	**53.7**	**18.9**	**(4.2)**
WiMax	33.2	32.4	25.4	30.6	(8.0)	20.4	21.4	20.0	(34.5)	(6.5)
LTE	8.4	10.4	20.1	13.1	56.1	(35.0)	23.9	17.3	32.1	(27.7)
5G	0.0	0.0	0.6	0.6	N/A	N/A	3.8	15.1	N/A	N/A
Total wireless (000)	**41.6**	**42.8**	**46.1**	**44.3**	**6.4**	**(4.0)**	**49.0**	**52.4**	**18.4**	**6.8**
Total fibre (000)	**0.6**	**0.7**	**1.8**	**0.9**	**50.0**	**(48.6)**	**7.0**	**1.3**	**44.4**	**(81.4)**
ARPU (€/month)*	**13.8**	**13.1**	**14.0**	**12.9**	**(6.0)**	**(7.5)**	**14.8**	**13.3**	**2.5**	**(10.6)**
Revenues	**6,612**	**3,422**	**7,533**	**6,791**	**2.7**	**(9.9)**	**9,203**	**7,909**	**16.5**	**(14.1)**
EBITDA	**2,767**	**1,396**	**3,009**	**2,688**	**(2.9)**	**(10.7)**	**3,728**	**3,144**	**17.0**	**(15.7)**
EBITDA margin (%)	41.8%	40.8%	39.9%	39.6%	(5.4)	(0.9)	40.5%	39.8%	0.4	(1.9)
D&A	(2,660)	(1,483)	(3,069)	(3,000)	12.8	(2.3)	(3,513)	(3,382)	12.7	(3.7)
Normalised operating profit	**107**	**(87)**	**(60)**	**(312)**	**(391.9)**	**416.5**	**215**	**(238)**	**(23.8)**	**(210.8)**
Normalised op. profit margin (%)	1.6%	-2.5%	-0.8%	-4.6%	(384.2)	472.9	2.3%	-3.0%	(34.6)	(228.9)
Normalised PBT	**(172)**	**(269)**	**(340)**	**(676)**	**293.2**	**98.9**	**(98)**	**(526)**	**(22.3)**	**437.2**
Reported PBT	**(305)**	**(709)**	**(615)**	**(1,260)**	**313.5**	**104.9**	**(398)**	**(926)**	**(26.6)**	**132.7**
Normalised net income	(122)	(61)	(340)	(468)	283.8	37.7	(98)	(526)	12.2	437.2
Reported net income	**(255)**	**(501)**	**(615)**	**(1,052)**	**313.0**	**71.1**	**(398)**	**(926)**	**(12.0)**	**132.7**
Normalised basic EPS (c)	(11.5)	(5.2)	(28.3)	(38.9)	238.3	37.7	(7.3)	(33.2)	(14.6)	357.1
Normalised diluted EPS (c)	(11.5)	(5.2)	(28.3)	(38.9)	238.3	37.7	(7.3)	(33.2)	(14.6)	357.1
Reported basic EPS (c)	(24.0)	(43.1)	(51.1)	(87.4)	264.0	71.1	(29.6)	(58.5)	(33.1)	98.0
Dividend per share (c)	0.00	0.00	0.00	0.00	N/A	N/A	0.00	0.00	N/A	N/A
Capex	4,197	1,724	3,670	3,307	(21.2)	(9.9)	5,490	8,351	152.5	52.1
Net debt/(cash)	**4,749**	**1,638**	**1,569**	**2,402**	**(49.4)**	**53.1**	**3,914**	**3,421**	**42.4**	**(12.6)**

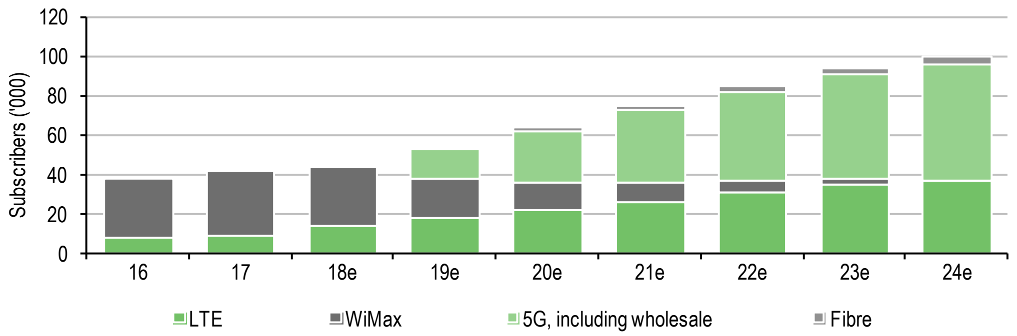
Source: Company data, Edison Investment Research. Note: *Previously forecast ARPUs adjusted to same base as revised forecasts.

Subscriber development: We forecast 7.0% growth in total subscriber numbers to 45.2k at the end of 2018. This reflects the expectation of 56% growth in LTE subscribers, with H2 numbers assumed to be boosted by the recruitment of c 500 subscribers in 5G areas in the last quarter of this year, which will be included with LTE network subscribers ahead of the roll-out of 5G base stations at the start of 2019.

With the new accelerated 5G strategy in place, we forecast a sharp build-up in 5G subscribers during 2019 from zero to 15.1k. This arises from the assumed migration of 7.5k subscribers from the WiMax network, the recruitment of 2.5k new retail 5G subscribers and the addition of 5.1k wholesale subscribers from Linkem. This leaves 20.0k subscribers in the WiMax network at YE19 after applying a 10% churn estimate.

We forecast LTE subscribers to grow 32% during 2019 to reach 17.3k at YE19. We forecast a further 44% increase in fibre broadband subscribers to 1.3 million in 2019, but this is sharply down from previous forecasts. This reflects management's increased focus on 5G, in part driven by the higher EBITDA margins that can be achieved from own network operations that do not incur wholesale rental costs.

Exhibit 4: GO internet broadband subscribers 2016–24e



Source: Company data, Edison Investment Research

ARPU outlook: We forecast FY19 blended ARPU to grow by 0.7% to €13.2 from our estimate of €12.9 in 2018. As the 5G network rolls out, we expect GO to offer discounted rates to WiMax subscribers to incentivise them to switch to the 5G network. As a result of this ARPU dilution, we assume that initial 5G ARPUs in 2019 will average c €15.7 compared with the c €18 charged to completely new subscribers. Over time, the average ARPU should revert back to c €18 as the discounts are eliminated. Despite this, we expect growth in LTE subscribers and further shrinkage in WiMax subscribers to have a positive overall impact on blended ARPU going forward.

Exhibit 5: ARPU

€ per month, excluding VAT	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e
Wi-max	10.6	10.2	10.0	9.8	9.6	9.4	9.2
LTE	19.5	18.0	16.8	15.7	14.7	14.0	13.3
Retail 5G	N/A	15.7	15.3	18.0	18.0	18.0	18.0
Wireless blended retail	**12.8**	**13.4**	**14.7**	**15.2**	**15.4**	**15.4**	**15.4**
Wholesale 5G	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Fibre	24.2	23.0	21.8	20.7	19.7	19.3	18.9
Blended ARPU	**12.9**	**13.3**	**14.3**	**14.5**	**14.5**	**14.4**	**14.3**

Source: Edison Investment Research. Note: ARPU is defined as including activation fees and penalties. GO internet does not publish ARPU data by network. The above are estimates based on discussions with management.

Forecast revisions

We summarise our revised earnings forecasts in Exhibit 3. For 2018 we forecast 2.7% revenue growth y-o-y to €6.8m, down from €7.5m. This principally reflects reduced expectations of LTE subscriber numbers arising from high churn and lower blended ARPUs arising from the reduced proportion of LTE business subscribers lost to competing higher-speed networks.

We have reduced our FY18 EBITDA margin estimate by 0.4pp to 39.6% on lower revenue growth/fixed-cost coverage, resulting in a 2.9% y-o-y reduction in FY18e EBITDA to €2.7m. With doubtful/bad debts likely to remain high, we forecast normalised FY18 PBT losses of €670k vs €269k in H1.

In 2019, we forecast a 16.5% y-o-y increase in revenue to €7.9m on the back of strong growth in the 5G network helped by migration of WiMax customers to 5G, as well as the addition of 5G wholesale revenues from Linkem.

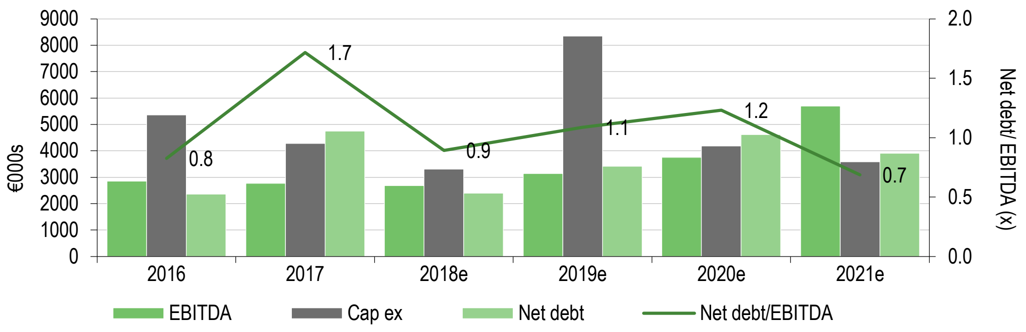
We forecast EBITDA margins to rise 0.2pp from 2018 to 39.8% as double-digit revenue growth increases fixed-cost cover, although higher marketing costs will cap the extent of the increase. Overall, we forecast a 17.0% increase in EBITDA to €3.1m, translating to a normalised PBT loss of €583k.

Balance sheet: Debt forecasts raised to reflect new strategy

FY18: The net €4.0m equity issue by Linkem in the first half of the year enabled GO to cut net debt by €3.1m in H118 to €1.6m. For the full year, we expect operating cash flow (as we calculate it) to reach €2.8m (€2.5m as reported by the company). We have trimmed our capex forecast from €3.7m to €3.3m to reflect management's expectation of a continuation of the H1 rate of capital investment in H2. As a result, we forecast year-end net debt of €2.4m, equating to a 0.9x net debt to EBITDA multiple.

FY19: Our 2019 forecast now assumes that GO pays a €2.7m 5G licence fee to the state in January 2019, funded by a new €5.0m equity issue in Q119. We assume underlying capex, excluding the licence fee, to rise to €5.6m to accommodate the accelerated 5G roll-out strategy. Including the assumption of the completion of the €5.0m capital increase in early 2019, we forecast net debt to rise to €3.4m by YE19. This equates to a 1.1x YE19 net debt/EBITDA multiple, which we expect to peak at 1.2x in 2020 before falling back below 1.0x in 2021. This forecast reflects our expectation that the benefits of the increase in operating cash flows in 2020 arising from the accelerated 5G roll-outs will be augmented by reduced discounting of 5G subscriptions to WiMax subscribers.

Exhibit 6: Gearing outlook



Source: Company data, Edison Investment Research

Valuation: Frequency extension fee affects DCF

Exhibit 7: Valuation comparison with Italian broadband suppliers

	Share price	Market cap	EV/Sales (x)	EV/Sales (x)	EV/EBITDA (x)	EV/EBITDA (x)	P/E (x)	P/E (x)	Dividend yield (%)	Dividend yield (%)
	(€)	(€m)	2018e	2019e	2018e	2019e	2018e	2019e	2018e	2019e
GO internet	**1.32**	**17.7**	**2.8**	**2.4**	**7.2**	**6.2**	**Loss**	**Loss**	**0.0**	**0.0**
Retelit	1.53	250.5	3.5	3.2	8.5	7.7	56.5	27.2	N/A	N/A
Tiscali	0.017	67.7	1.3	1.3	11.7	10.6	Loss	Loss	0.0	0.0
Intred	2.9	41.0	2.7	2.3	7.3	5.6	19.3	14.5	N/A	N/A
Italian median			**2.8**	**2.3**	**7.9**	**6.9**	**37.9**	**20.9**	**0.0**	**0.0**
GO internet premium/(discount) to Italian SC telecoms			3.3	4.1	(8.9)	(11.2)	N/A	N/A	N/A	N/A

Source: Thomson Reuters, company data. Note: Priced at 10 December 2018.

GO internet is attractively valued on a multiple comparison with its Italian broadband peers. On EV/EBITDA, it is priced at a 9% discount to the prospective 2018 peer multiples, rising to 11% in 2019. We believe that the stock's in-line EV/sales multiple in 2018 of 2.8x is supportive of the stock in view of GO's above-average EBITDA margins.

DCF valuation of €1.67 per share

We have reduced our DCF valuation for GO from €2.20 to €1.67 per share. This reflects the reduction in earnings forecasts discussed above and high forecasts of near-term capex due to the accelerated 5G strategy and the incorporation in our forecasts of the expected €2.7m 5G licence payment in 2019.

Exhibit 8: DCF sensitivity table

		Terminal growth rate				
		0.00%	1.00%	2.00%	3.00%	4.00%
WACC	12.00%	1.10	1.18	1.27	1.38	1.51
	11.50%	1.19	1.28	1.38	1.51	1.68
	11.00%	1.30	1.40	1.52	1.67	1.86
	10.50%	1.41	1.53	1.67	1.85	2.08
	10.00%	1.54	1.67	1.84	2.05	2.33
	9.50%	1.68	1.84	2.03	2.29	2.64
	9.00%	1.84	2.02	2.26	2.57	3.00
	8.50%	2.03	2.24	2.52	2.90	3.45
	8.00%	2.23	2.49	2.83	3.30	4.01
	7.50%	2.47	2.77	3.19	3.79	4.74

Source: Edison investment Research

Recent high 5G frequency valuation boosts GO's strategic value

With regard to the group's valuation, we note the potential strategic value of GO's frequencies to competing players and mobile operators. This can be seen in the €3.45 per share implied value of the recent 5G frequency auctions, assuming that the fee for the extension of 5G frequencies is levied at the already agreed rate.

We also note the implied €1.41 per share strategic valuation placed on the group by fellow Italian broadband supplier Linkem's recent purchase of a 21% stake in GO internet for €4.0m, as part of the 5G frequency sharing agreement between the two companies.

As mentioned above, we note the risk to the share price of the threat of legal action against the Italian government over the issue of 5G licence fee extensions to Go Internet and the other regional broadband operators.

Exhibit 9: Financial summary

€000s	2016	2017	2018e	2019e	2020e	2021e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue	6,390	6,612	6,791	7,909	8,934	12,098
Cost of Sales	(2,796)	(3,220)	(3,474)	(4,129)	(4,391)	(5,468)
Gross Profit	3,594	3,392	3,317	3,780	4,543	6,630
EBITDA	2,966	2,767	2,688	3,144	3,752	5,702
Normalised operating profit	732	107	(312)	(238)	(185)	1,621
Amortisation of acquired intangibles	0	0	0	0	0	0
Exceptionals	(180)	(133)	(584)	(400)	(300)	(543)
Share-based payments	0	0	0	0	0	0
Reported operating profit	552	(26)	(896)	(638)	(485)	1,078
Net Interest	(252)	(279)	(364)	(288)	(379)	(422)
Joint ventures & associates (post tax)	0	0	0	0	0	0
Exceptionals	0	0	0	0	0	0
Profit Before Tax (norm)	480	(172)	(676)	(526)	(564)	1,199
Profit Before Tax (reported)	300	(305)	(1,260)	(926)	(864)	656
Reported tax	(164)	50	208	0	0	(376)
Profit After Tax (norm)	316	(122)	(468)	(526)	(564)	822
Profit After Tax (reported)	136	(255)	(1,052)	(926)	(864)	280
Minority interests	0	0	0	0	0	0
Discontinued operations	0	0	0	0	0	0
Net income (normalised)	316	(122)	(468)	(526)	(564)	822
Net income (reported)	136	(255)	(1,052)	(926)	(864)	280
Basic average number of shares outstanding (m)	9.2	10.6	12.0	15.8	18.2	18.2
EPS - basic normalised (c)	34	(12)	(39)	(33)	(31)	45
EPS - diluted normalised (c)	34	(12)	(39)	(33)	(31)	45
EPS - basic reported (€)	15	(24)	(87)	(59)	(48)	15
Dividend (€)	0	0	0	0	0	0
Revenue growth (%)	20.9	3.5	2.7	16.5	13.0	35.4
Gross Margin (%)	56.2	51.3	48.8	47.8	50.9	54.8
EBITDA Margin (%)	46.4	41.8	39.6	39.8	42.0	47.1
Normalised Operating Margin	11.5	1.6	-4.6	-3.0	-2.1	13.4
BALANCE SHEET						
Fixed Assets	15,804	17,245	17,817	22,786	23,040	22,547
Intangible Assets	3,366	3,851	3,594	5,829	5,745	5,602
Tangible Assets	11,750	12,469	13,298	16,032	16,369	16,020
Investments & other	688	925	925	925	925	925
Current Assets	4,655	4,739	6,886	7,223	8,346	8,912
Stocks	(1)	0	1	2	3	4
Debtors	1,307	2,114	2,175	2,316	2,450	2,762
Cash & cash equivalents	2,405	1,027	3,063	3,210	4,147	4,347
Other	944	1,598	1,646	1,695	1,746	1,799
Current Liabilities	(8,076)	(7,105)	(7,666)	(7,832)	(7,935)	(8,234)
Creditors	(5,483)	(4,311)	(4,872)	(5,038)	(5,141)	(5,440)
Tax and social security	(41)	(34)	(34)	(34)	(34)	(34)
Short term borrowings	(2,265)	(2,085)	(2,085)	(2,085)	(2,085)	(2,085)
Other	(287)	(675)	(675)	(675)	(675)	(675)
Long Term Liabilities	(3,887)	(6,649)	(6,338)	(7,505)	(9,641)	(9,134)
Long term borrowings	(2,495)	(3,691)	(3,380)	(4,547)	(6,683)	(6,176)
Other long term liabilities	(1,392)	(2,958)	(2,958)	(2,958)	(2,958)	(2,958)
Net Assets	8,496	8,230	10,698	14,673	13,810	14,091
Minority interests	0	0	0	0	0	0
Shareholders' equity	8,496	8,230	10,698	14,673	13,810	14,091
CASH FLOW						
Op Cash Flow before WC and tax	2,966	2,767	2,688	3,144	3,752	5,702
Working capital	1,845	(2,385)	452	(24)	(82)	(65)
Exceptional & other	(292)	272	(584)	(400)	(300)	(543)
Tax	(164)	50	208	0	0	(376)
Net operating cash flow	4,355	704	2,764	2,720	3,369	4,719
Capex	(5,356)	(4,197)	(3,307)	(8,351)	(4,190)	(3,589)
Acquisitions/disposals	0	0	0	0	0	0
Net interest	(252)	(279)	(364)	(288)	(379)	(422)
Equity financing	3,709	0	3,919	4,900	0	0
Dividends	0	0	0	0	0	0
Other	0	1,378	(663)	0	0	0
Net Cash Flow	2,456	(2,394)	2,348	(1,019)	(1,200)	707
Opening net debt/(cash)	5,463	2,355	4,749	2,402	3,421	4,621
FX	(33)	0	0	0	0	0
Other non-cash movements	685	0	(1)	0	0	0
Closing net debt/(cash)	2,355	4,749	2,402	3,421	4,621	3,914

Source: GO internet, Edison Investment Research

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