

Go Internet

Full year results

Treading water

Telecoms

GO internet's (GO's) FY15 results reflect the steady expansion of its network. FY16 has started somewhat slower and we now anticipate a more measured network expansion ahead of the funding from its majority shareholder and the proposed capital increase. We reduce our forecasts and valuation accordingly.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (c)	EV/sales (x)	EV/EBITDA (x)	P/E (x)
12/14	3.9	1.4	0.7	4.0	11.0	248.6
12/15	5.1	2.0	5.1	3.0	7.8	34.1
12/16e	6.8	3.0	6.1	2.3	5.1	28.5
12/17e	8.4	3.9	9.3	1.9	4.0	18.7

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

Steady progress during 2015

Revenues of €5.1m (vs our forecast of €5.5m) and EBITDA of €2.0m (forecast €2.2m) were short of expectations but still increased 32% and 41% respectively. There were 8,238 net subscriber additions and we calculate an ARPU of €14.2 per month, down slightly on FY14, affected by price discounting in the latter months of the year. Operational leverage is starting to show, with 60% of each new €1 revenue converting to EBITDA and 88% of this converted to operating cash in FY15. The group spent €4.5m on expanding its network coverage (higher than our forecast as the company took advantage of early payment discounts), resulting in a net cash outflow in FY15 of €2.7m. Net debt increased to €5.5m (from €2.7m).

Slower expansion at the start of 2016

The rate of subscriber additions has slowed in FY16 so far, with 1,049 subscribers added in January and February, 37% below last year. This suggests GO is moderating marketing and network roll-out until it has secured additional funding. It has confirmed plans for a €4m capital increase and a €4m convertible bond, although the timing is not clear. In the meantime, GO's majority shareholder, FC Gold, has issued a 'Comfort Letter' saying it will provide funding instalments up to €2m by 31 December 2016. In light of the slower pace of growth and lack of clarity on the timing of funding, we have reduced our forecasts to reflect a slower network expansion, reducing our year-end subscriber target, to 40k from 42k, and our FY16 and FY17 EBITDA by 10% and 17% respectively.

Valuation: Hinges on network expansion pace

GO's valuation is contingent on the pace of network expansion. Provided FC Gold honours its commitment (the nature of any guarantees has not been disclosed), GO should have sufficient funding to continue to invest in growth its current regions. Our base case DCF, which assumes this, returns a value of €3.4 per share (down from €4.4 previously). However, to accelerate the pace of its network roll-out or participate in the upcoming spectrum auctions that would enable expansion into new regions, additional funding is required – clarity regarding this is a key catalyst for the shares in the short term.

24 March 2016

Price €1.74
Market cap €10m

Net debt (€m) at December 2015	5.5
Shares in issue	6.0m
Free float	31%
Code	GO
Primary exchange	AIM Italia
Secondary exchange	NA

Share price performance



%	1m	3m	12m
Abs	(2.4)	(35.5)	(53.7)
Rel (local)	(8.3)	(27.7)	(43.9)
52-week high/low		€3.86	€1.30

Business description

GO internet provides fixed broadband internet and telephone services using fourth-generation (4G) wireless technology. The service is 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

AGM	20 April
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Exhibit 1: Summary forecast changes

	2015			2016e			2017e		
	forecast	actual	difference	old	new	difference	old	new	difference
Revenues	5,495	5,144	(6%)	7,636	6,764	(11%)	10,293	8,414	(18%)
EBITDA	2,235	2,010	(10%)	3,675	3,040	(17%)	5,287	3,895	(26%)
Net income	215	151	(30%)	879	364	(59%)	1,554	557	(64%)
Capex	(3,473)	(4,476)	29%	(3,550)	(3,256)	(8%)	(3,568)	(3,239)	(9%)
Net debt	4,964	5,463	10%	5,517	6,092	10%	4,836	5,992	24%

Source: Edison Investment Research

Exhibit 2: Summary forecasts

	€000s	2013	2014	2015	2016e	2017e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		2,645	3,899	5,144	6,764	8,414
Cost of Sales		(1,170)	(2,053)	(2,735)	(2,930)	(3,588)
Gross Profit		1,475	1,846	2,409	3,835	4,826
EBITDA		887	1,425	2,010	3,040	3,895
Operating Profit (before amort. and except.)		166	373	587	769	1,098
Intangible Amortisation		0	(50)	(86)	0	0
Exceptionals		(54)	(7)	(67)	0	0
Other		0	0	0	0	0
Operating Profit		111	316	434	769	1,098
Net Interest		(202)	(292)	(275)	(314)	(286)
Profit Before Tax (norm)		(36)	81	312	456	812
Profit Before Tax (FRS 3)		(90)	24	159	456	812
Tax		(10)	(48)	(8)	(92)	(255)
Profit After Tax (norm)		(46)	33	304	364	557
Profit After Tax (FRS 3)		(100)	(24)	151	364	557
Average Number of Shares Outstanding (m)		4.16	4.93	5.99	5.99	5.99
EPS - normalised (c)		(1.11)	0.67	5.07	6.07	9.30
EPS - normalised fully diluted (c)		(1.11)	0.67	5.07	6.07	9.30
EPS - (IFRS) (c)		(2.41)	(0.49)	2.52	6.07	9.30
Dividend per share (€)		0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		55.8	47.3	46.8	56.7	57.4
EBITDA Margin (%)		33.5	36.5	39.1	44.9	46.3
Operating Margin (before GW and except.) (%)		6.3	9.6	11.4	11.4	13.0
BALANCE SHEET						
Fixed Assets		6,536	8,117	11,158	12,447	12,889
Intangible Assets		2,404	2,465	2,767	2,660	2,589
Tangible Assets		4,132	5,652	8,391	9,787	10,300
Investments		0	0	0	0	0
Current Assets		2,023	6,527	4,330	4,266	3,952
Stocks		166	814	967	986	1,006
Debtors		1,729	3,429	2,729	2,784	2,839
Cash		128	2,284	338	200	(190)
Other		0	0	296	296	296
Current Liabilities		(3,065)	(5,093)	(7,835)	(8,392)	(7,963)
Creditors		(1,384)	(3,839)	(5,034)	(5,100)	(5,161)
Short term borrowings		(1,681)	(1,254)	(2,801)	(3,292)	(2,802)
Long Term Liabilities		(4,515)	(3,911)	(3,000)	(3,304)	(3,304)
Long term borrowings		(4,368)	(3,771)	(3,000)	(3,000)	(3,000)
Other long term liabilities		(147)	(140)	0	(304)	(304)
Net Assets		979	5,640	4,653	5,016	5,574
CASH FLOW						
Operating Cash Flow		1,297	1,842	2,045	3,032	3,881
Net Interest		(202)	(292)	(275)	(314)	(286)
Tax		(10)	(48)	(8)	(92)	(255)
Capex		(1,844)	(2,670)	(4,476)	(3,256)	(3,239)
Acquisitions/disposals		0	0	0	0	0
Financing		0	4,324	0	0	0
Dividends		0	0	0	0	0
Other		(29)	6	(8)	0	0
Net Cash Flow		(788)	3,162	(2,722)	(629)	101
Opening net debt/(cash)		5,152	5,921	2,741	5,463	6,092
HP finance leases initiated		0	0	0	0	0
Other		19	18	0	0	(0)
Closing net debt/(cash)		5,921	2,741	5,463	6,092	5,992

Source: Go internet and Edison Investment Research

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