

# Go Internet

## 3.5GHz buzz

Subscriber additions increased by on average 60% a month following the IPO and should pick up even further in 2015 as management implements the 100Mbps base stations and accelerates the network roll-out. While the shares reacted positively to the buzz surrounding 3.5GHz chipsets that emerged following the Mobile World Congress (MWC) on 5 March, on 21x FY16 P/E, they do not yet reflect forecast growth, let alone the option value that ecosystem developments may bring.

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)	9.9	29.6	N/A
12/14	3.9	1.4	0.7	6.7	18.4	N/A
12/15e	5.8	2.4	8.1	4.5	11.0	48.1
12/16e	8.5	3.9	19.0	3.1	6.7	20.6

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

## Pick-up in subscriber base since IPO

Net subscriber additions increased from c 500 a month to a run rate of c 800 a month since the IPO last August, taking year-end subscribers to 23.1k (24.8k at end February). This drove a 52% increase in broadband access revenues and an increase in the EBITDA margin to 36.9%.

## Network expansion to accelerate in 2015

Management is accelerating the network roll-out in 2015 – it has agreed to buy up to \$10m of base stations from Huawei over the next four years and will start implementations in the coming weeks. This should drive an ongoing acceleration in monthly subscriber additions and we retain our forecast for year-end subscribers of 35k. 2014 revenues and EBITDA were broadly in line with estimates; however, we update forecasts to reflect the sale and leaseback structure of this deal, which resulted in a higher net debt than forecast. This should unwind over the next four years but may oblige GO to draw an additional €1-2m debt funding.

## Valuation: Fast evolving ecosystem for 3.5GHz

The Italian regulator has announced plans to auction an additional 200MHz of spectrum in the 3.6GHz frequency band in the next 12 months and nearly all the leading manufacturers have unveiled chip sets for smartphones that support the 3.5GHz frequency – making mobile broadband in the 3.5GHz frequency band an increasing commercial reality. Not only could this increase the value of GO's existing network considerably, but it also increases the possibilities of expanding beyond its current regions. The shares have performed well following the excitement surrounding 3.5GHz at MWC. However, we still see the possibility for considerable rating expansion – our base case DCF, which factors in nothing for future licence or ecosystem developments, returns a value of €4.7 per share assuming a 12% WACC and peak subscribers of c 120k – management would hope for more than this.

Forecasts increased

Telecoms

12 March 2015

**Price** €3.91  
**Market cap** €23m

Net debt (€m) at December 2014	2.8
Shares in issue	5.99m
Free float	31%
Code	GO
Primary exchange	AIM Italia
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	32.7	34.5	N/A
Rel (local)	N/A	N/A	N/A
52-week high/low	€3.91	€1.89	

### 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 events

Q1 results	May 2015
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## Full year update

### 2014 saw an acceleration in take up

Subscriber uptake has picked up since the IPO in August 2014 from on average 500 net subscriber additions per month to approximately 800 subsequently. GO ended the year with 23,118 subscribers compared to 15,728 at December 2013.

Consolidated revenues of €3.9m, +46%, were predominantly from the broadband services business (€3.84m, +52%) and reflect the higher subscriber base. As anticipated, voice resale revenues continued to decline and represented only €56k (€120,000 in 2013). This expansion in the subscriber base drove the EBITDA margin to 36.9% from 33.5% in 2013 and EBIT margin to 9.0% (3.9% in the prior year).

### Network roll-out – 100Mbps base stations being installed

GO increased its network of base stations by 50% to 482 at the end of 2014 across 200 sites. The vast majority of this increase was for the 7Mbps service. However in December management announced that it had contracted with Huawei for the supply of \$10m of 100Mbps base stations over the next four years and installation of these will start in the coming weeks. This is a critical part of management's strategy to increase both the depth and quality of its coverage. The new LTE base stations will enable GO's network to reach a speed of 100Mbps which will allow it to add more customers per base station, as well as improve the signal performance, particularly indoors. Management has structured a sale and leaseback arrangement for the equipment it is buying from Huawei, which resulted in a larger than forecast year end net debt position of €2.7m.

### Forecasts updated – acceleration should continue during 2015

We are forecasting capital expenditure to increase by more than a third in 2015 and 2016 as the 100Mbps equipment is installed across more sites – management has indicated that it hopes to install 15 to 20 sites a month – triple the rate in 2014. If it can execute on this plan, it would increase its coverage from the current 8.5% to c 60% of the two regions.

2014 results were broadly in line with our forecast at both the revenue and EBITDA levels. In January and February management reported 889 and 871 net additions respectively. While this is below our average run rate of 1,000 a month for the year, we expect subscriber growth to accelerate through the year alongside the network roll-out and so leave our subscriber forecasts unchanged. We update our assumptions to capture the higher year end debt and the structure of the Huawei deal – management may look to additional short term financing to add financial flexibility to execute its network roll out. Additional financing would be needed if it were to add additional spectrum or licences. A summary of our forecast changes is presented in Exhibit 1 and full forecasts at the end of this report.

**Exhibit 1: Summary forecast changes**

€'000s	2014a			2015e			2016e			2017e		
	Forecast	Reported	difference	Old	New	Change	Old	New	Change	Old	New	Change
Revenues	3,793	3,866	2%	5,673	5,788	2%	8,290	8,454	2%	11,412	11,637	2%
EBITDA	1,409	1,425	1%	2,295	2,394	4%	3,703	3,893	5%	5,569	5,815	4%
PBT	28	55	100%	481	635	32%	1,348	1,584	17%	2,613	2,914	12%
Net income	28	7	(75%)	381	487	28%	976	1,138	17%	1,792	1,999	12%
Capex	(1,738)	(2,670)	54%	(3,523)	(3,631)	3%	(3,501)	(3,559)	2%	(3,823)	(3,752)	-2%
Net debt	1,158	2,741	137%	1,479	4,324	192%	3,056	4,585	50%	2,056	3,572	74%
Gross cash		2,284			(205)			(1,359)			(1,117)	

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

## Initiatives in 3.5GHz frequency band driving value

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Equipment manufacturers and governments are showing increasing support for 3.5GHz networks.

**Japan leading the way:** during 2013/14 in Japan, Softbank, using Huawei's kit, deployed a carrier-grade small cell 3.5GHz network in Tokyo delivering ultra-fast wireless broadband with 770Mbps download speeds. The success of the deployment has arguably kick-started the development of the ecosystem. Japan now plans to issue a further 120MHz of spectrum in the 3.5GHz band this year and China Mobile is now also starting to use 3.5GHz for its small cell deployment.

**3.5GHz chipsets for smartphones available by the year end:** during the MWC 2015, Intel, Qualcomm, and Huawei presented chipsets that support the 3.5GHz frequency for tablet and smartphone reception. These chip sets will be available towards the end of 2015 and are expected initially to be used in high end smartphones from early 2016.

**Additional spectrum to be released in Italy:** following a request from the EU, the Italian Telecoms Ministry, AGCOM, has announced that it plans to release 200MHz of spectrum in the 3.6GHz frequency band currently being used by the military and terrestrial broadcasters. It has not indicated how the auction will be structured, but we anticipate an auction towards the end of 2015 or early 2016 and expect that there will be both a national and a regional element.

**More lenient network policies in Italy:** the Italian telecoms regulator is working on a set of measures to help to stimulate broadband diffusion in Italy, where penetration still lags the rest of Europe. Italy still has some of the most restrictive rules on the installation of sites. New policies being discussed include an increase in the number of site permits made available, an increase in the speed of approval of site applications and, crucially, an increase in the electromagnetic emissions permitted per site, which would enable more base stations to be installed in each site, improving the ROI of each site installed.

For GO, these developments could be very positive. Not only does it provide the possibility of expand its reach by bidding for more spectrum in Italy (finances permitting), but also the possibility of being able to add a mobile offering to its wireless broadband service makes its existing spectrum considerable more valuable (note the share price jump during MWC).

**Exhibit 2: Financial summary**

	€000s	2012	2013	2014	2015e	2016e	2017e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		1,321	2,645	3,866	5,788	8,454	11,637
Cost of Sales		(1,602)	(1,415)	(1,831)	(2,458)	(3,388)	(4,375)
Gross Profit		(281)	1,230	2,035	3,330	5,066	7,261
EBITDA		(605)	887	1,425	2,394	3,893	5,815
Operating Profit (before amort. and except.)		(1,046)	166	373	793	1,709	3,008
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		(68)	(54)	(26)	0	0	0
Other		0	0	0	0	0	0
Operating Profit		(1,114)	111	347	793	1,709	3,008
Net Interest		(162)	(202)	(292)	(158)	(125)	(94)
Profit Before Tax (norm)		(1,208)	(36)	81	635	1,584	2,914
Profit Before Tax (FRS 3)		(1,276)	(90)	55	635	1,584	2,914
Tax		343	(10)	(48)	(148)	(446)	(915)
Profit After Tax (norm)		(865)	(46)	33	487	1,138	1,999
Profit After Tax (FRS 3)		(933)	(100)	7	487	1,138	1,999
Average Number of Shares Outstanding (m)		4.16	4.16	4.93	5.99	5.99	5.99
EPS - normalised (€)		(0.21)	(0.011)	0.007	0.081	0.19	0.33
EPS - normalised and fully diluted (€)		(0.21)	(0.011)	0.007	0.081	0.19	0.33
EPS - (IFRS) (€)		(0.22)	(0.024)	0.001	0.081	0.19	0.33
Dividend per share (€)		0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		-21.3	46.5	52.6	57.5	59.9	62.4
EBITDA Margin (%)		-45.8	33.5	36.9	41.4	46.1	50.0
Operating Margin (before GW and except.) (%)		-79.2	6.3	9.6	13.7	20.2	25.9
<b>BALANCE SHEET</b>							
Fixed Assets		5,401	6,536	8,117	10,147	11,521	12,467
Intangible Assets		2,389	2,404	2,465	2,425	2,316	2,048
Tangible Assets		3,012	4,132	5,652	7,722	9,205	10,420
Investments		0	0	0	0	0	0
Current Assets		1,983	2,023	6,527	4,328	4,414	4,503
Stocks		447	166	814	830	847	864
Debtors		1,520	1,729	3,429	3,498	3,568	3,639
Cash		16	128	2,284	0	0	0
Other		0	0	0	0	0	0
Current Liabilities		(2,756)	(3,065)	(5,093)	(3,693)	(5,646)	(4,728)
Creditors		(1,833)	(1,384)	(3,839)	(2,251)	(3,163)	(2,443)
Short term borrowings		(923)	(1,681)	(1,254)	(1,441)	(2,484)	(2,286)
Long Term Liabilities		(4,376)	(4,515)	(3,911)	(3,022)	(2,242)	(1,427)
Long term borrowings		(4,245)	(4,368)	(3,771)	(2,882)	(2,102)	(1,287)
Other long term liabilities		(131)	(147)	(140)	(140)	(140)	(140)
Net Assets		252	979	5,640	7,760	8,048	10,815
<b>CASH FLOW</b>							
Operating Cash Flow		(86)	1,297	1,842	2,353	3,869	5,774
Net Interest		(162)	(202)	(292)	(158)	(125)	(94)
Tax		343	(10)	(48)	(148)	(446)	(915)
Capex		(1,953)	(1,844)	(2,670)	(3,631)	(3,559)	(3,752)
Acquisitions/disposals		0	0	0	0	0	0
Financing		0	0	4,324	0	0	0
Dividends		0	0	0	0	0	0
Other		(62)	(29)	6	0	0	0
Net Cash Flow		(1,920)	(788)	3,162	(1,584)	(261)	1,013
Opening net debt/(cash)		3,298	5,152	5,921	2,741	4,324	4,585
HP finance leases initiated		0	0	0	0	0	0
Other		66	19	18	1	(0)	0
Closing net debt/(cash)		5,152	5,921	2,741	4,324	4,585	3,572

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

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