



NewStreet
Research

OTE

Q1 24 results

14 May 2024

OTE (Neutral, TP: €21, +45%)

Q1 24: Weaker SR and EBITDA trends, lacks catalysts

14 May 2024

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Summary: OTE has reported a weak set of results; revenue is c8% ahead of consensus expectations, but the beat is thanks to low margin ICT revenue, and EBITDAaL is c-2% light. Cost control in Greece has been poor, and SR trends are slower in Greece. Until numbers can begin to move up, we think OTE will struggle to re-rate, despite the long-term upside potential. OTE is only c3% cheap vs its long-term trading range, the upside we see comes from our DCF using a standard Western Europe WACC. Using a higher WACC to reflect a "Greek discount", and the upside would be less than 20%.

Valuation and view: OTE is one of the cheapest stocks in the sector trading at a 22% discount on 1 year rolling EV/FCF of 12.4x vs the sector 15.9x. OTE has historically always traded at a material discount to the sector however (c-19%) a "Greek discount", which we think is unfair given the macro and micro outlook, but that discount is unlikely to disappear unless there is a significant catalyst of some sort, which means that OTE needs to beat on numbers for the stock to outperform. Our €21 target price is set using our standard W. Europe WACC (6.6%), FCF g (0%), and 15.2x exit multiple; using an exit multiple c20% lower of 12.3x (8.1% WACC, 0% FCF g), as per the trading range, then the target would fall to €17/share, +18% upside, i.e. an interesting amount of upside, but not enough to really push as a strong Buy in the absence of something else. Cash returns for 2024 are set to be 8.3% (2.9% buyback, 5.4% dividend).



Results vs consensus and guidance

Results vs consensus: Ahead at revenue, weak at EBITDA

Summary: OTE has reported a mixed set of numbers. Revenue is +8.0% ahead but EBITDAaL is -1.8% light.

Summary of results vs consensus

Revenue: Within the mix - Greece +8.2% ahead and Romania +0.8% ahead. **ICT revenues are driving the Greek revenue beat, and ICT revenues are low or zero margin.**

EBITDAaL: Within the mix, Greece is -1.2% light and Romania -40% light.

Q1 24	Actual	Consensus	% diff
Revenue	878	813	8.0%
EBITDAaL	326	332	-1.8%
EBITDA margin	37.1%	40.8%	
OpEX	552	481	14.7%
Group CAPEX	80	75	6.8%
Group Capex/sales	9.1%	9.2%	
Group OpFCF	246	257	-4.3%

Greece			
Mobile revenue - Greece	296	293	1.1%
Fixed revenue - Greece	491	436	12.6%
Revenue - Greece	812	751	8.2%
EBITDA aL - Greece	323	327	-1.2%

Romania			
Revenue - Romania	65	64	0.8%
EBITDA aL - Romania	3	5	-40.4%

FCF/Returns/guidance: All reiterated

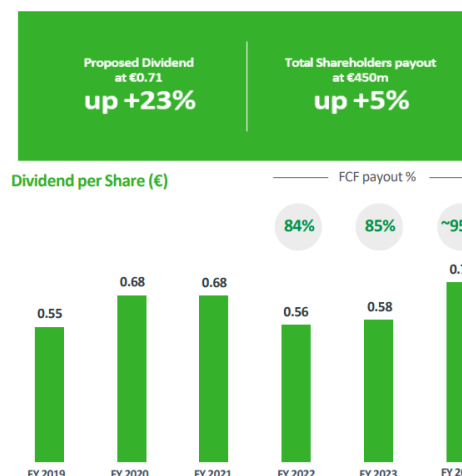
FCF: Reported FCF of €127m means OTE is on track to deliver the €470m of FY FCF guidance.

Implied EBITDA guidance: For 2024, FCF guidance is €30m lower at €470m, despite capex being -€7m lower. **OTE does not guide for EBITDA, but IR are suggesting that cash tax will be €45-50m higher (tax credit in 2023 (€35m relating to 2021), none in 2024), which implies an EBITDA delta of c1%, +€10m.**

Shareholder payout: The policy is to payout 70-100% of FCF, with a 95% payout (€450m) planned for 2024 vs €425m for 2023. Within that the DPS will be €0.71 from €0.58 in 2023. We have FCF growing at a c4% CAGR 23-28, which should lead to c4%+ CAGR in returns.

Group FCF €m	FY22	Q1 23	Q2 23	Q3 23	Q4 23	FY23	Q1 24	Guidance FY24	
EBITDA	1,348	322	327	353	341	1,343	326	1,351	Implied
Capex (PF)	639	80	167	184	192	623	80	615	Guidance
OpFCF	710	242	160	169	149	720	246	736	Implied
Implied Other CF items	-113	-16	-16	-142	-45	-219	-119	-266	Implied
Reported FCF (PF)	597	226	144	27	104	501	127	470	Guidance
Adjustments	58	3	4	24	12	43	3		
Adjusted FCF (PF)	655	229	148	51	116	544	130		

Shareholder Remuneration Policy



Shareholder Remuneration Policy

70%-100%

FCF distribution through a combination of dividends and share buybacks. Starting from 2023, the cash dividend will account for at least 50% of total shareholder remuneration and the remaining part will be allocated to share buybacks.

Total Shareholders Payout in 2024

€450m (+5% increase)

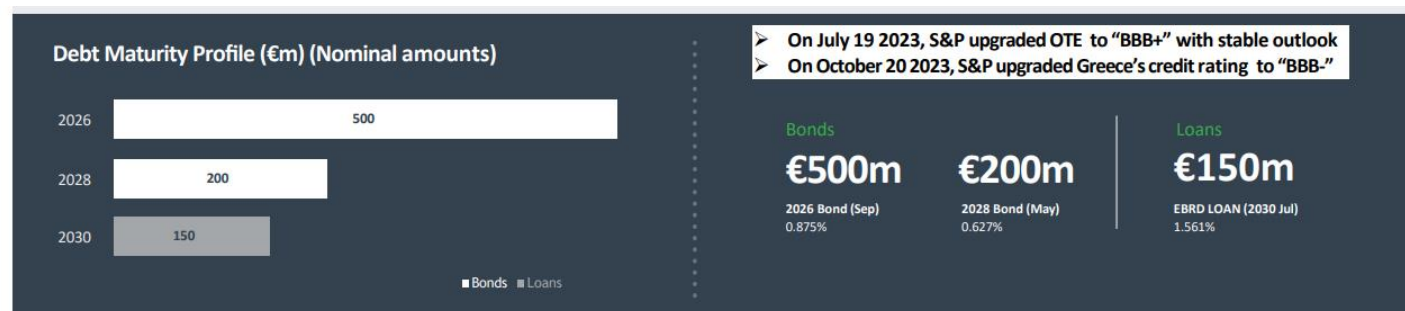
DIVIDENDS: €297m

SB: €153m

Net debt: Strong B/S with attractive financing profile

Leverage: OTE has low levels of leverage, 0.4x ND/EBITDAal, and no bonds maturing until 2026. OTE's strong financial position is one of the reasons why we think the "Greek discount" on the multiple is unfair. OTE arguably has better financials and fundamentals than the Greek state. If needed, OTE could refinance the 2026 bonds from 2026 FCF plus cash reserves we estimate.

€m	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24
Net debt inc leases	727	506	391	672	635	521
Change in net debt		221	115	-281	37	114
Adjusted FCF (given by OTE)		229	148	51	116	130
Implied other		-8	-33	-332	-79	114
Of which: dividend				-251		
ND/EBITDA		0.4	0.3	0.5	0.5	0.4





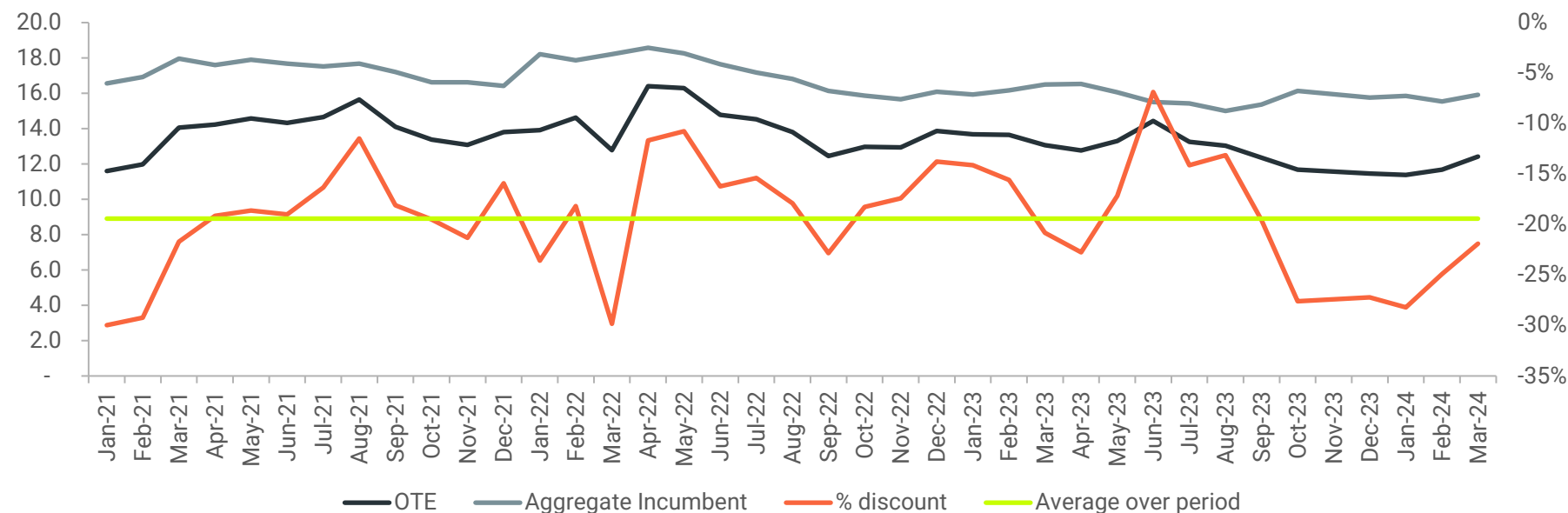
Valuation

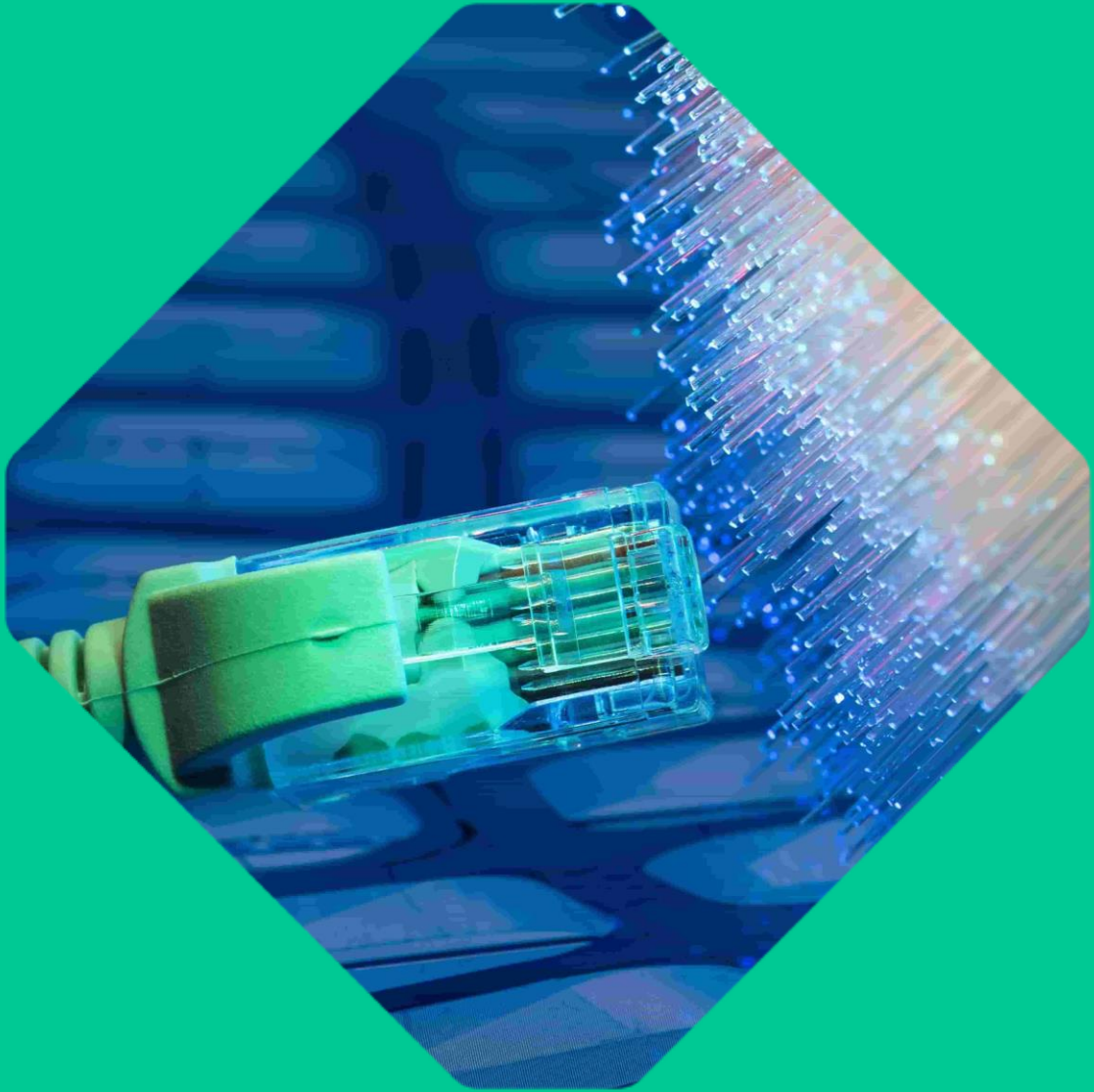
EV/FCF: OTE trades at a material discount

OTE historically trades at a material discount to the sector, a “Greek discount”, which we think is unfair given the macro and micro outlook in our view: good GDP growth, low leverage, €-denominated borrowing and DT as a back-stop, and good competitive dynamics - we think that OTE has one of the strongest positions domestically of all incumbents, and is poised to materially benefit from ERF funds). Its current multiple 1 year rolling is 12.4x vs the sector 15.9x, a -22% discount vs a c-19% discount over the last 2 years. This suggest some upside if and when numbers start to rise.

OTE is trading below its historic trading range

1 year rolling forward EV/FCF





Group

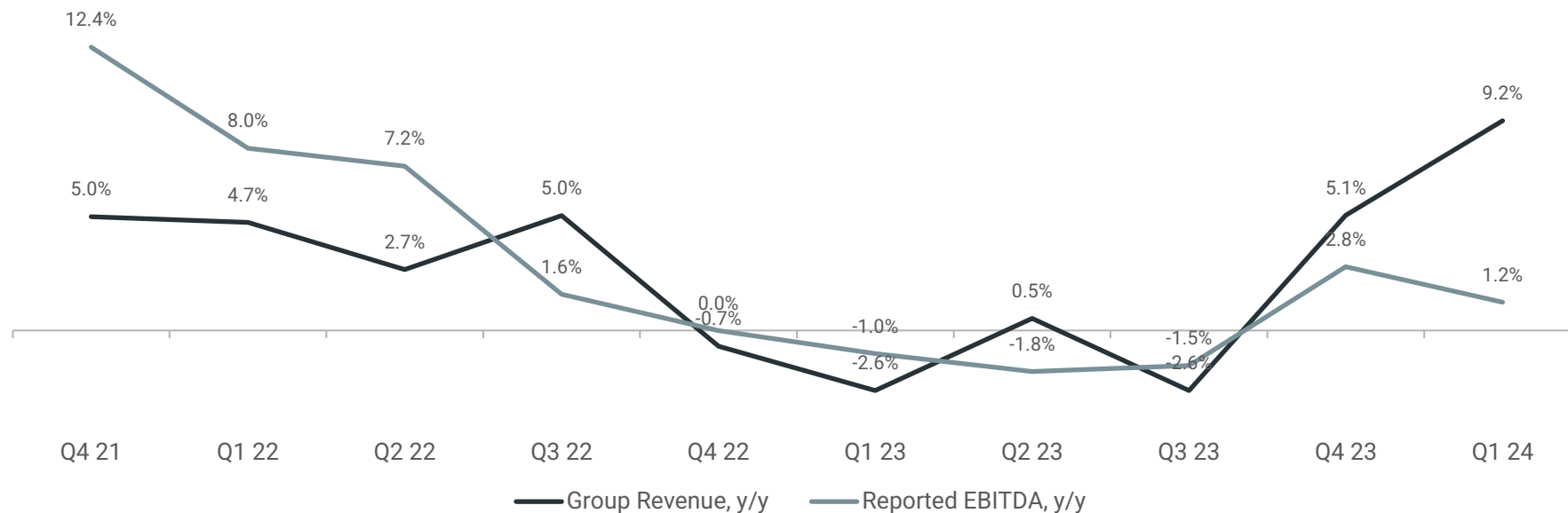
Group: Good revenue , but weaker EBITDAaL trends

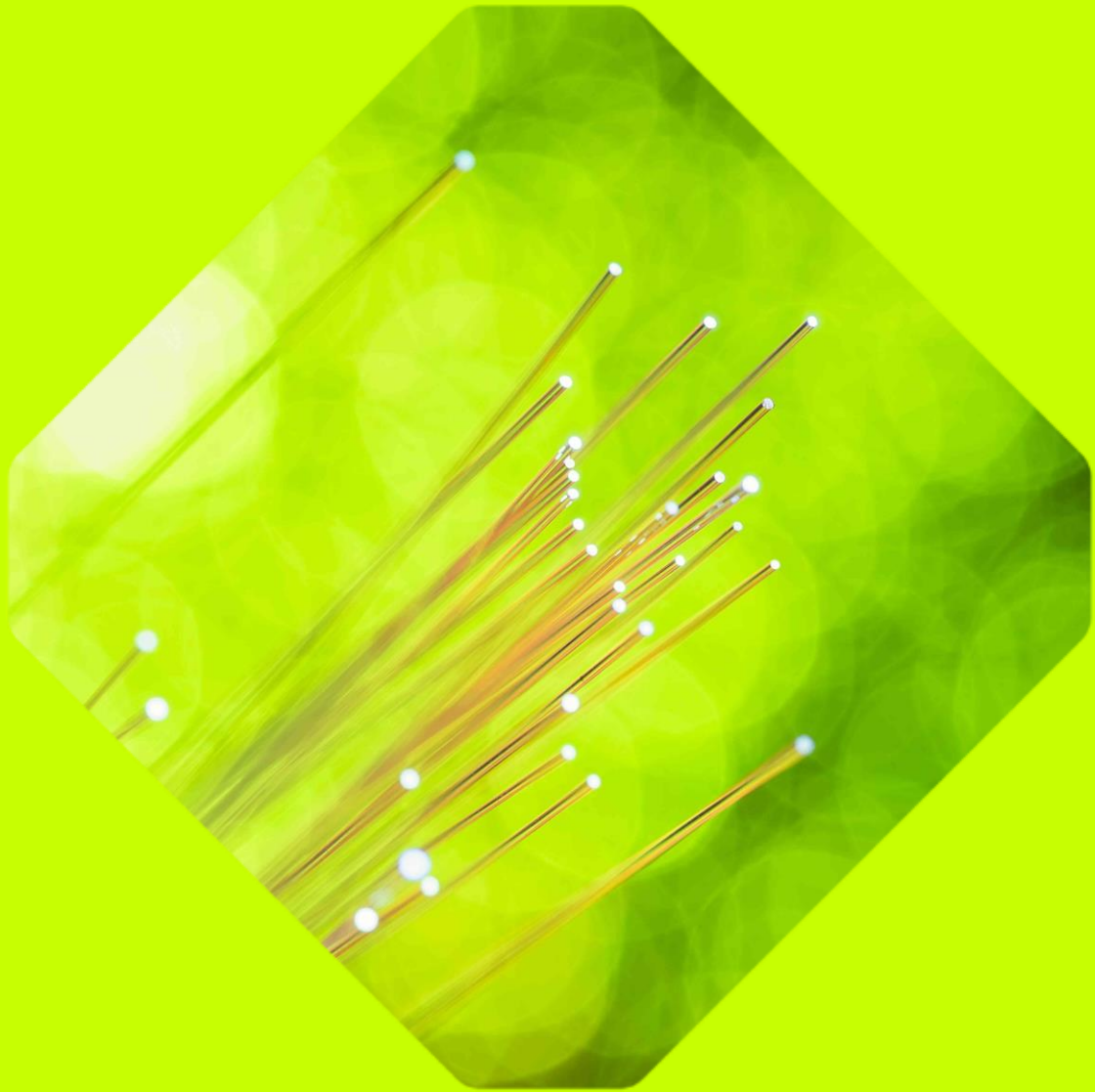
Revenue: Group revenue growth was much better at +9.2% y/y from +5.1% y/y in Q4 23.

EBITDAaL: Reported EBITDAaL was +1.2% y/y from +2.8% y/y in Q4 23. There are several one-offs and energy drags impacting the numbers, we show clean trends for Greece and Romania on the later slides.

Summary of Group trends

y/y





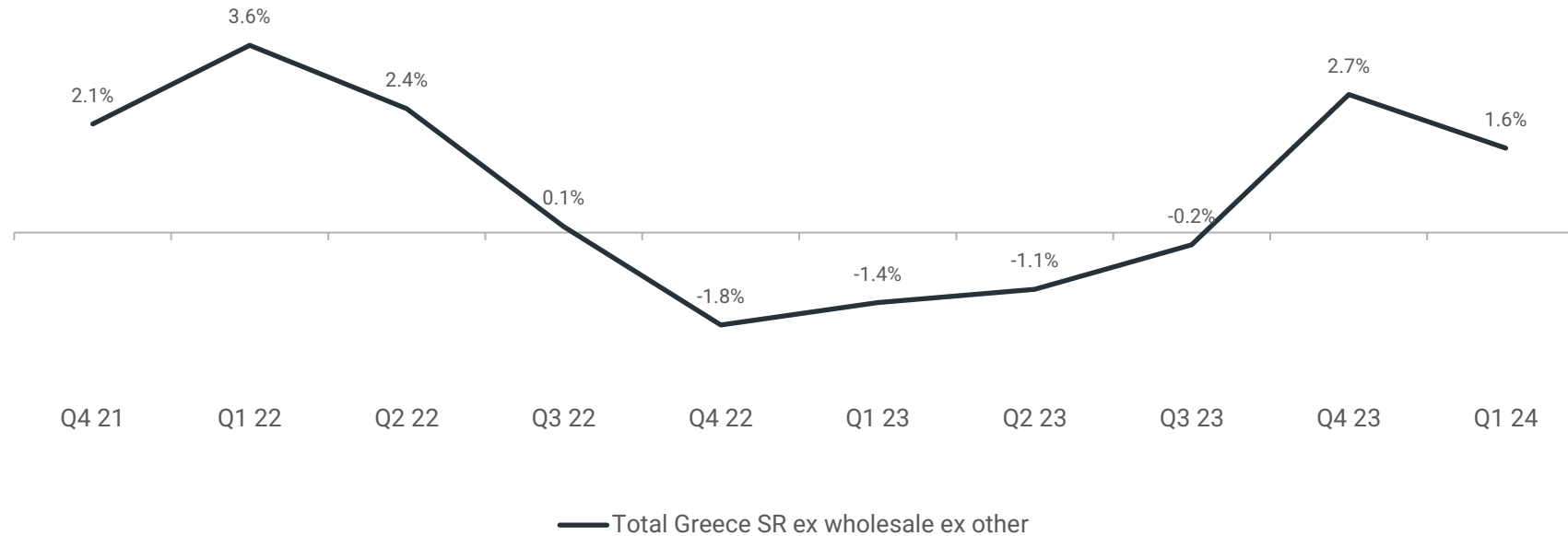
Greece

Total Retail SR: Slower LFL y/y trends

Retail SR: Total retail SR (ex wholesale ex other) was +1.6% y/y from +2.7% y/y in Q4 23. SR is split roughly 50%-50% between fixed and mobile. SR is thanks to both fixed and mobile.

Retail Service Revenue (ex wholesale ex other)

y/y

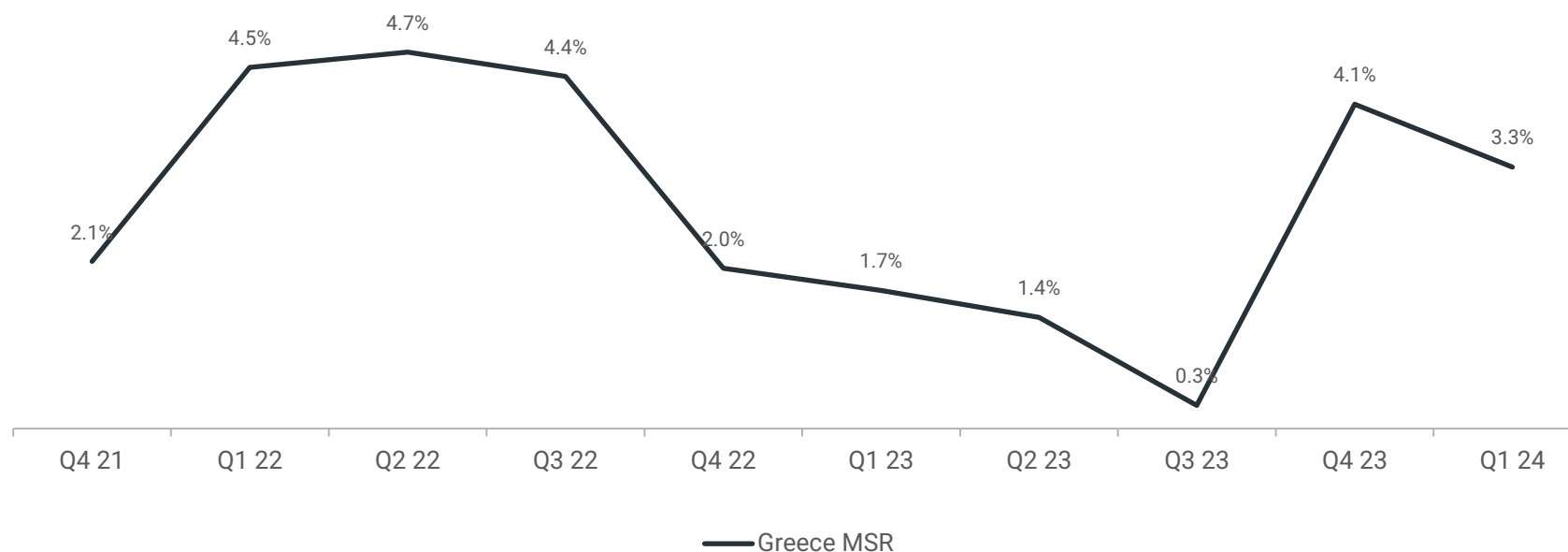


Mobile SR: Weaker y/y growth

MSR: MSR growth was slower at +3.3% y/y from +4.1% y/y in Q4 23. The new high-end tariff plans now include unlimited voice, which capped growth in 2023, but the introduction of the plans has now annualized, which means that 2024 should be set for better growth than 2023, even if Q1 is slower than Q4

Mobile Service Revenue

y/y



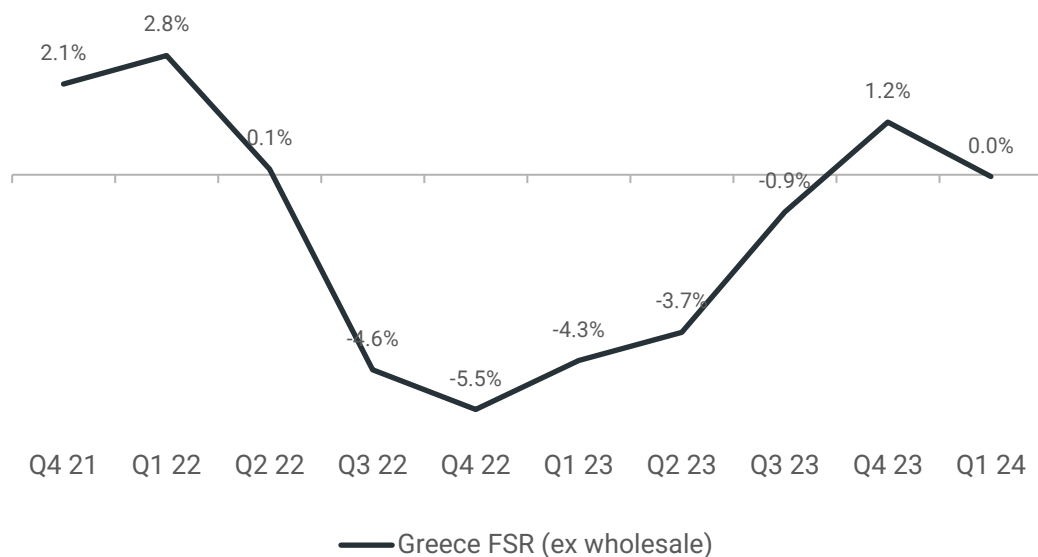
Fixed SR: Retail fixed revenue growth weaker; strong wholesale and Other

In aggregate, total Fixed revenue was +14.2% from +3.9% y/y in Q4 23. Within that:

- **Retail FSR (ex wholesale ex other):** Retail fixed revenue growth was slower at +0.0% y/y from +1.2% y/y in Q4 23. We expect growth to be positive for 2024, because the doubling of fixed speeds for free annualized in Q2 23, as did the movement of revenue into Other (public sector contracts), and this has been augmented by the return of FTTH coupons (€13/month contribution toward fast internet for 2 years), and in this context, Q1 growth is a bit disappointing therefore.
- **Wholesale:** Wholesale revenue was +19.5% y/y from +4.4% y/y in Q4 23 – low margin transit revenue here is lumpy.
- **Other:** Other fixed was much better (low margin ICT) at +48.7% y/y from +8.4% y/y as ICT (ERF in part) rebounded after a pause in Q3 due to the election.

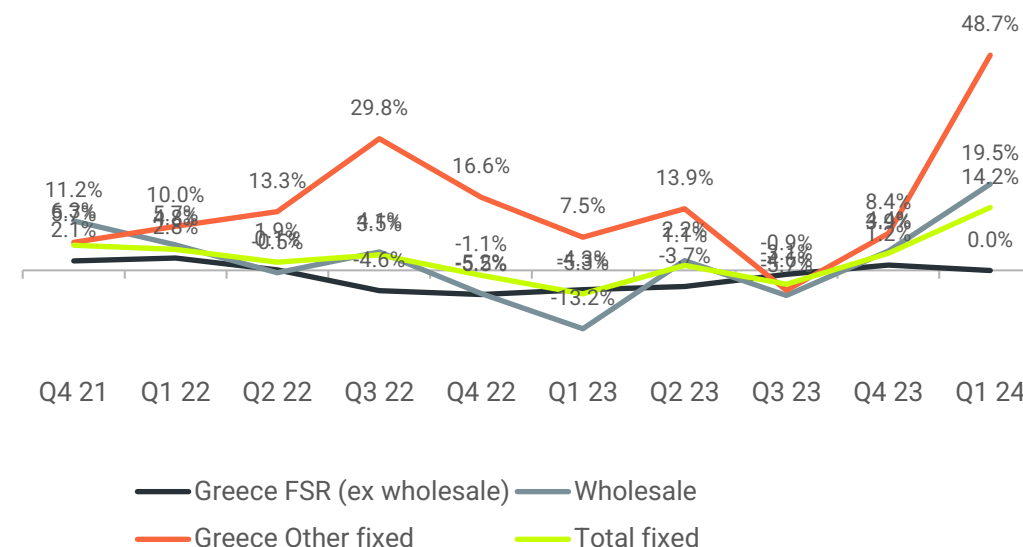
Retail Fixed Service Revenue

y/y



Fixed Service Revenue drivers

y/y



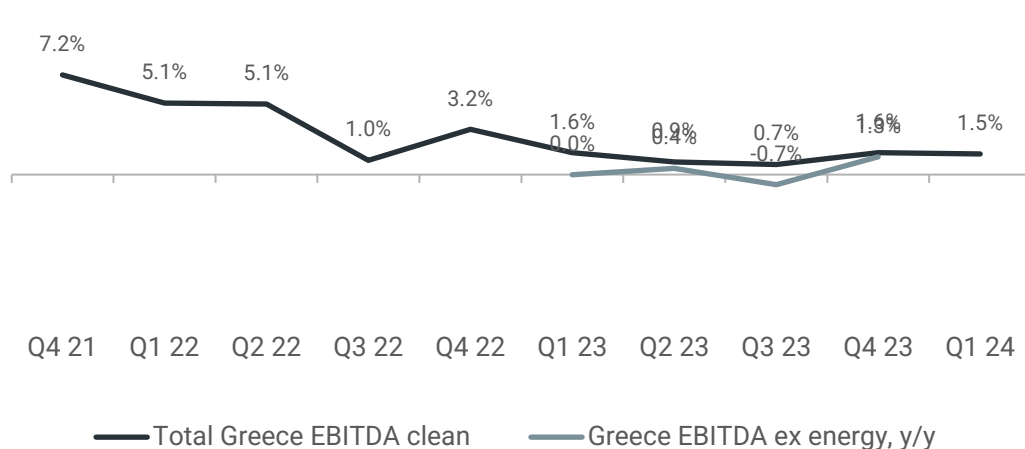
EBITDA: Flat underlying trends, thanks to higher costs

EBITDAaL: Greek EBITDA growth is unchanged at +1.5% y/y from +1.6% y/y in Q4 23. Although SR growth is a little slower this quarter, it is still good, but has not dropped through to EBITDA due to higher costs.

OpEx: Indirect cost is +8.7% y/y from 0% in Q4, and its due to Other (+22%), maintenance (+17%), marketing (+5%) and commission (+14%). Personnel is -6%, A VRS will continue to support 2024 EBITDA, but at this stage, the VRS benefits are currently being largely offset, and it appears that OTE is having to buy the growth somewhat, with higher marketing and commissions.

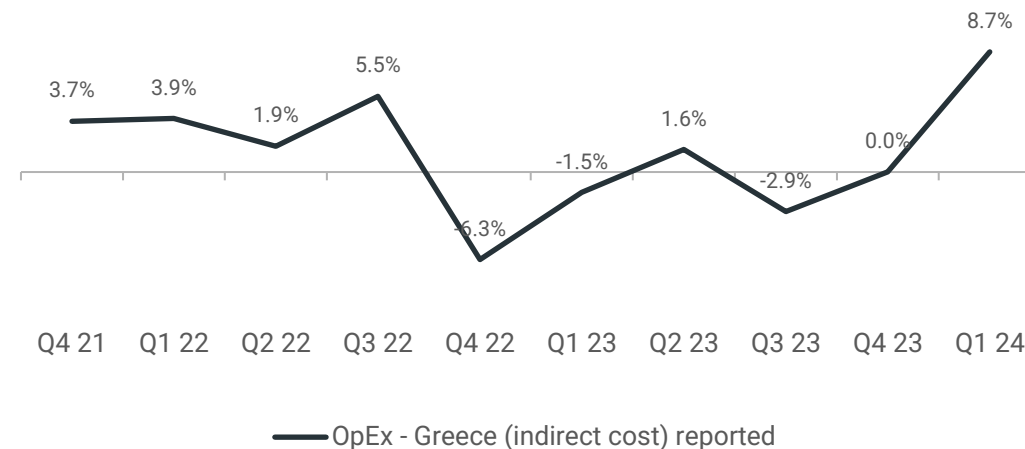
Greece EBITDA

y/y



Indirect OpEx

y/y



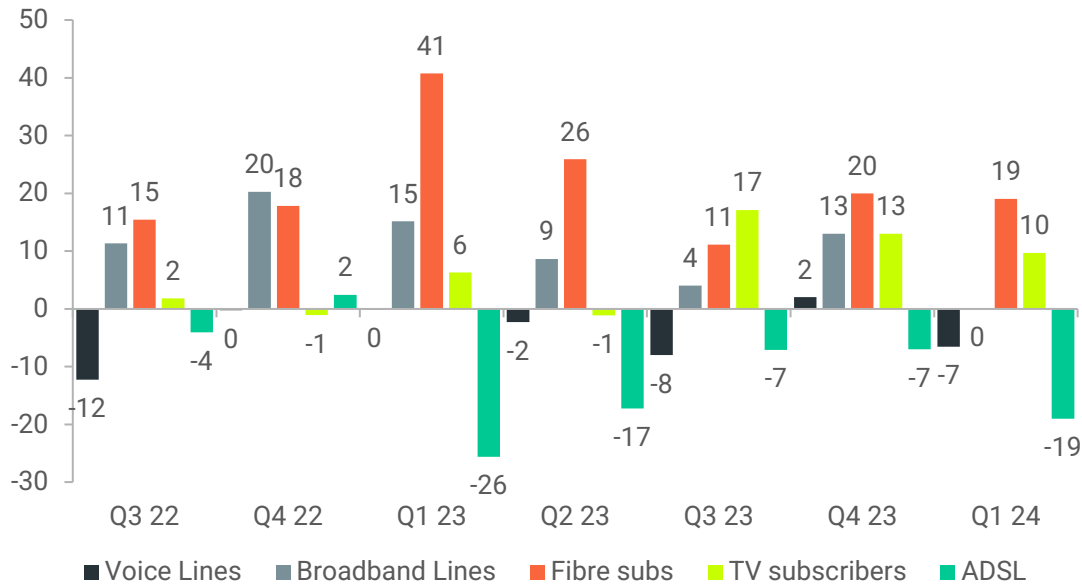
Fixed KPIs: Rev per RGU trends worse

Fixed: Total broadband net adds of +0k vs +15k in Q1 23. Fixed retail revenue per RGU was -1.1% y/y from +0.1% y/y in Q4 23, which is a bit of a concern, and needs to be monitored.

- OTE has historically taken c90% share of adds we estimate, and so to have 0k net adds is very unusual – OTE is so dominant in terms of share and adds, we do not mind if OTE cedes some share, or else it risks regulatory intervention in the long-term our view.
- TV adds were +10k, and voice lines were -7k.

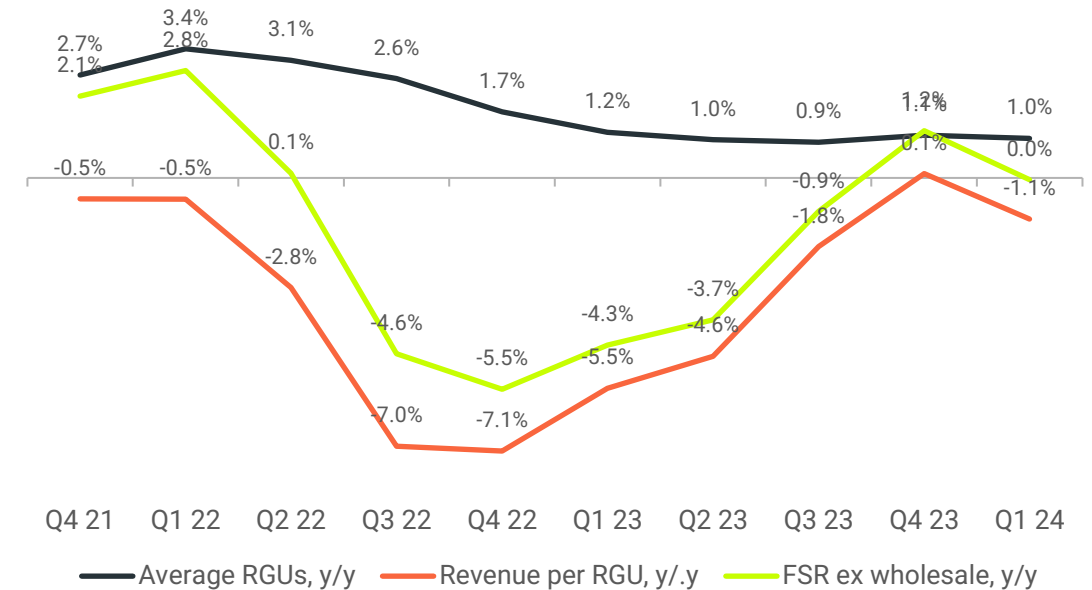
Fixed net adds

y/y



Retail fixed ARPU/SR dynamics

y/y

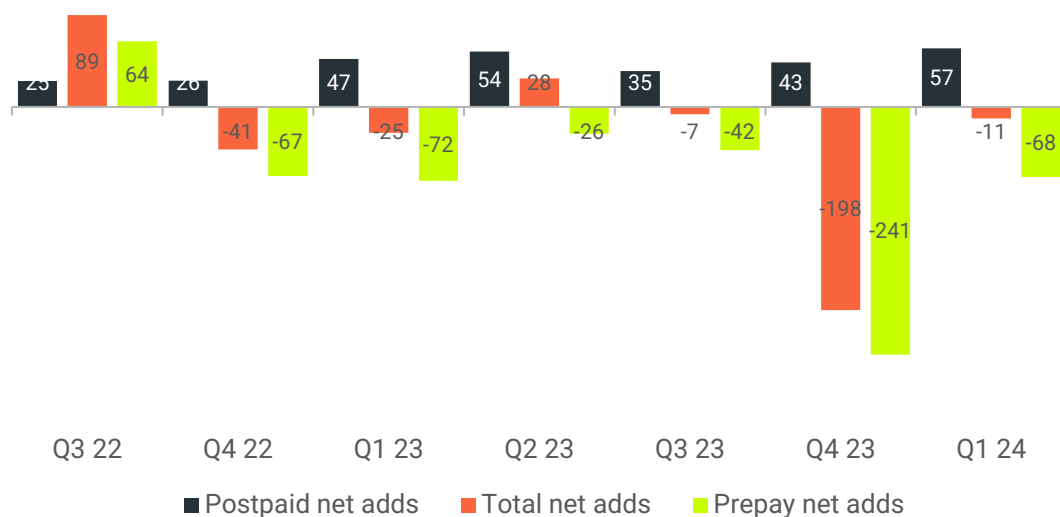


Mobile KPIs: Better ARPU, but MSR growth a touch slower

Mobile: Postpaid net adds were a good at +57k vs +47k in Q1 23. Total net adds are negative thanks to prepay losses. ARPU was +6.1% y/y from +5.8% y/y in Q4 23 – the subs write-off in Q4 23 lifting APRU, but in terms of underlying trends: the changing mix of subs to postpaid from prepay is helping to lift ARPU, so too the return of roaming, and the annualising of the unlimited voice inclusion into high end tariffs.

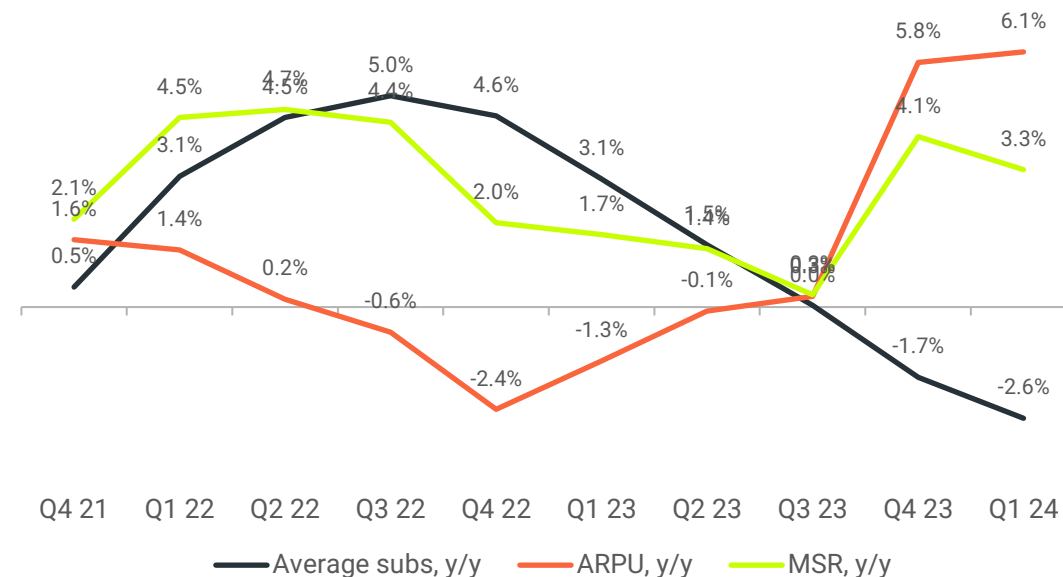
Mobile net adds

y/y



Mobile ARPU/SR dynamics

y/y





Romania

Summary: Weaker performance at MSR and EBITDA

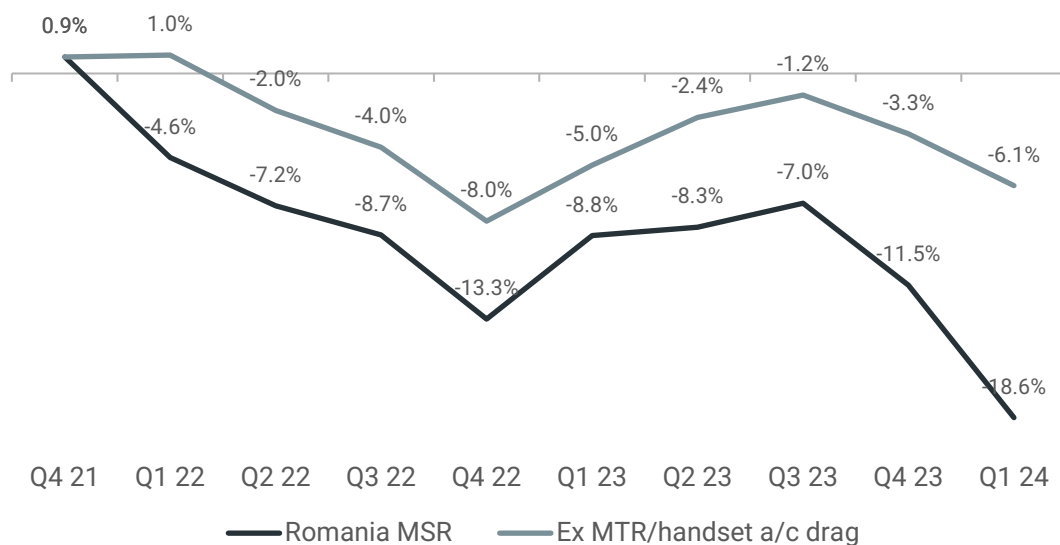
OTE has now sold RomTel (fixed) and so Romania is mobile only. The business is challenged, lacking scale and a decent FMC product. We think it will be sold once CF has been maximised. That process is likely to conclude in 2024.

MSR was -19% y/y from -12% y/y in Q4 23, weak trends thanks mainly to a -30% MTR cut in 2023, and another -50% cut in 2024. **Underlying growth was less severe but still weak, we estimate -6% y/y from -3% y/y in Q4.**

EBITDA: EBITDA trends are erratic thanks to the low margins and restructuring charges. Assuming no energy drag, then EBITDA is down -20% y/y, -50% y/y LFL.

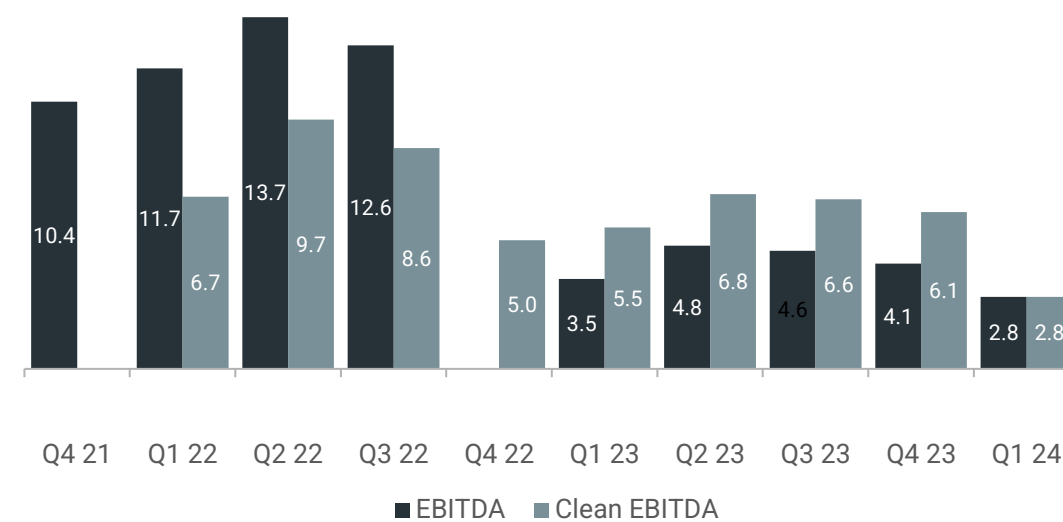
Revenue

y/y



EBITDA

€m





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