



HELLENIC TELECOMM. ORGANIZATION

Outlook:

We retain our investment thesis on OTE on the back of satisfactory FY16 results ensuring our confidence in the group's future growth expectations.

OTE group's FY16 results at a glance:

OTE's top line performance was marked by the y-o-y growth in core business revenues driven by the substantial growth in Fixed Line sales.

Mobile sector's revenues further decelerated due to the intensive competition faced mainly in the Romanian and Albanian markets.

The Group announced improved EBITDA gains excluding the effects of voluntary exit expenses. However, EBIT deteriorated due to a one-off impairment charge amounting to 59mn. Euros.

The Group guides towards increased CAPEX needs (up to 700mn. Euros) for the current period, due to the further investment in 4G infrastructure.

Net Profit Attributed to shareholders 140mn.

Proposed DPS 0.16Euros/Share, (Div/Yield 1.84%)

We reiterate 9.06Euros/Share as Fair estimated price per share

Date: 06/03/17

FAIR ESTIMATED PRICE: **9.06Euros/Share**

Investment Thesis: **FV**

Key Statistics:

| Valuation | Date 06/03/17 |
|-------------------------------------|---------------|
| Share Price | 8,70 |
| Price High 52 week | 9,58 |
| Price Low 52 week | 7,29 |
| Current num. of shares | 490.150.389 |
| P/E (E) | 15 |
| Market Cap. | 4.264.308.384 |
| EPS (A) | 0,285 |
| DPS(E) | 0,16 |
| <i>*Closing Price as 03/03/2017</i> | |

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HELLENIC TELECOMMUNICATIONS ORGANIZATION (OTE)

OTE's FY16 results were characterized by the y-o-y growth in the group's core business revenues and the improvement of the corresponding operating earnings (EBITDA)-excluding the effect of the early retirement program-and came up to 140 mn. Euros in Net Income attributed to shareholders. The management proposed the distribution of 0.16Euros/Share as ordinary dividend 10% increased on a year-on-year basis.

Specifically, the Group's core business revenues were up by 0.015% from the previous period. That growth is mainly attributed to the Fixed Line sector's 0.77% growth that managed to offset the further deterioration of the Mobile Sector's total revenues. The Fixed Line sector's performance was highlighted by the further successful penetration of TV services in Hellenic Market and the ICT services for both Hellenic and Romanian market. In the Mobile sector, the total revenues were 2.10% lower on a year-on-year basis due to the intensively competitive and challenging environment in Romania and Albania albeit the retention of the dominant market position in Greece.

In terms of operating costs the Group managed to improve its performance despite the slightly higher expense for the early voluntary exit program (49.6mn.) which exceeded the guidance that called for a full year expense of 37.7mn.Euros. We should note that the Group's EBIT was negatively impacted by the impairment losses incurred on Telekom Romania's assets that amounted to 46.9mn.Euros.

We are satisfied with OTE's performance in the Fixed Line sector as the sales growth rate came in line with our expectations in combination with the operating earnings, while we are cautious for the Mobile sector's ongoing performance due to the evidenced further deceleration in the Group revenues.

We retain our estimates for the growth of the Fixed Line sector due to the Group's intention to invest in 4G infrastructure and the successful gradual penetration of OTE TV in the Hellenic Market. Additionally in our DCF model we adjusted our FCF projections for the 2017 period to incorporate the management's guidance for c.700mn. in CAPEX in the current fiscal year.

The above adjustments leave our FV estimates unchanged for the three Risk Free yield scenarios (see. HELLENIC TELECOMM.ORGANIZATION UPDATE HY'16) we utilize, namely at 10.71 Euros/Share for RF 6.50% , 9.06 Euros/Share for RF 8.50%-which is our base case scenario- and 6.95 Euros/Share for RF 10.50%. OTE's operating performance qualifies the stock for our Top Pics Universe as it ensures the generation of quality FCFF despite the increased CAPEX spending needs and leads to sustainable value generation for the shareholders paired with favorable valuation metrics as compared to the Pan-European sector averages: at current levels, the group trades at 4.43x in terms of EV/EBITDA vs. an average of 7.27x for its peers and is valued at 1.09x its Sales compared to 1.77x which is the average EU mark.

FINANCIAL SUMMARY AND VALUATION TABLES

Table I: Income Statement

| Income Statement | 2016A | 2017E | 2018E | 2019E | 2020E |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Total Sales | 3.963.300.000 | 3.951.130.300 | 3.955.355.043 | 3.987.746.152 | 4.009.185.511 |
| Oper. Expenses | 2.696.300.000 | 2.647.257.301 | 2.650.087.879 | 2.671.789.922 | 2.605.970.582 |
| EBITDA | 1.267.000.000 | 1.303.872.999 | 1.305.267.164 | 1.315.956.230 | 1.403.214.929 |
| D&A | 881.400.000 | 862.907.760 | 871.536.838 | 880.252.206 | 889.054.728 |
| EBIT | 385.600.000 | 440.965.239 | 433.730.327 | 435.704.024 | 514.160.201 |
| Interest Cost/Expense | 133.200.000 | 160.000.000 | 160.000.000 | 160.000.000 | 160.000.000 |
| EBT | 252.400.000 | 280.965.239 | 273.730.327 | 275.704.024 | 354.160.201 |
| Taxation | 168.400.000 | 181.479.919 | 79.381.795 | 79.954.167 | 102.706.458 |
| Net Income/Loss | 84.000.000 | 99.485.320 | 194.348.532 | 195.749.857 | 251.453.743 |

Source: Company's statements, N.Chryssochoidis Research Department estimates.

Table II: Cash Flows

| Cash Flow estimations (E) | 2016A | 2017E | 2018E |
|---------------------------|---------------|-------------|-------------|
| EBIT | 385.600.000 | 440.965.239 | 433.730.327 |
| Taxation (1-Tax Rate) | 168.400.000 | 35% | 71% |
| NOPAT | 217.200.000 | 154.337.834 | 307.948.532 |
| Depreciation | 881.400.000 | 862.907.760 | 871.536.838 |
| Capital Exp. | 627.000.000 | 700.000.000 | 500.000.000 |
| IWC | 13.000.000,00 | 205.591,68 | 174.755,96 |
| NCF | 458.600.000 | 317.040.002 | 679.310.614 |

Source: Company's statements, N.Chryssochoidis Research Department estimates

Table III: Valuation Metrics

| Growth | 12/16A | 12/17E | 12/18E |
|------------------------|--------|--------|--------|
| Sales growth | 0% | 0% | 0% |
| EBITDA growth | 4% | 3% | 0% |
| Net Profit/Loss growth | -35% | 18% | 95% |
| RATIOS | 12/16A | 12/17E | 12/18E |
| Debt/Equity | 0,82 | 0,82 | 0,82 |
| Capex/EBITDA | 49% | 54% | 38% |
| ROE | 6% | 4% | 8% |
| WACC | 10,00% | 10,00% | 10,00% |
| VALUATION | 12/16A | 12/17E | 12/18E |
| Book Value | 4,81 | 4,81 | 4,81 |
| P/BV | 1,83 | 1,83 | 1,83 |
| P/E | 15 | 15 | 15 |

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Σημειώσεις/Notes

P: Τρέχουσα Τιμή

MCAP: Καπιταλικοποίηση

EPS: Καθαρά Κέρδη Ανά Μετοχή

Market Price

Capitalization

Earnings per Share

Οδηγός Συστάσεων/Ratings

UV Χαμηλή Αποτίμηση/ Χαμηλός Κίνδυνος

UV1 Χαμηλή Αποτίμηση/ Κίνδυνος

FV Σωστή Αποτίμηση/ Χαμηλός Κίνδυνος

OV1 Σωστή Αποτίμηση/ Κίνδυνος

OV Υπερτιμημένη Μετοχή

N/R Μη Αποτιμημένη Μετοχή

Underpriced/ Small Risk

Stock Price < 20% of Fair

Underpriced/ Risk

Stock Price < 10% of Fair

Fairly Priced/ Small Risk

10%<Stock Price<10%

Fairly Priced/ Risk

Stock Price >10% of Fair

Overvalued

Stock Price >20% of Fair

Not Rated

P/E: Λόγος Τιμής προς Κέρδη

Price/Earnings Ratio

P/S: Λόγος Τιμής προς Πωλήσεις

Price/Sales Ratio

D/A: Συνολικός Δανεισμός προς Παθητικό

Total Debt/Assets Ratio

DY: Απόδοση Μερίσματος

Dividend Yield

ROE: Απόδοση Ιδίων Κεφαλαίων

Return on Equity

FV: Τιμή Σωστής Αποτίμησης

Fair Value Price