



## HELLENIC TELECOMMUNICATIONS ORGANIZATION.

### Outlook:

We retain OTE's fair estimated price to 12.50Euros/Share based on the satisfactory performance of the Hellenic operating segment, the in-line performance of the Mobile business unit and the substantial operating profitability coming from the reduction of operating expenses and cost cutting efforts.

### FY'18 results at a glance:

OTE's consolidated revenues ended up at 3.799bn.Euros lower than our anticipated of 3.874bn.Euros driven by the positive contribution of the Hellenic business unit and Mobile sector respectively.

Mobile sector's revenues showed satisfactory performance (+1.36% y-o-y basis).

The Group's operating earnings (EBITDA) stood at 1.250bn.Euros and in-line with our projections surpassing the previous period's EBITDA of 1.236bn.Euros.

Finally, OTE Group's Net Profit attributed to Shareholders came up at 175.00mn.Euros boosted by the substantially lower interest and expenses compared to the respective FY'17 period and in-line with our estimates.

Date: 27/02/19

FAIR ESTIMATED PRICE: **12.50Euros/Share**

Investment Thesis: **UV**

### Key Statistics:

VALUATION	26/2/2019
Share Price	11,20
Price High 52 week	12,05
Price Low 52 week	9,52
Current num. of share	479.939.319
P/E	20
Market Cap.	5.375.320.373
EPS (Trailing)	0,52
DPS	0,46
<i>*Closing Price as 26/02/2019</i>	

# HELLENIC TELECOMMUNICATIONS ORGANIZATION (OTE)

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OTE's FY'18 results were characterized by the y-o-y flattish growth of the consolidated revenues, the ongoing growth of the Domestic business unit thanks to the Broadband, Fiber and TV services, the further optimization of the operating expenses that successfully contributed to the satisfactory EBITDA gains and finally the confirmation about the harsh operating environment of the Romanian market which led to revenue deceleration in the respective market for its Fixed and Mobile units.

Overall, the Fixed Line sector marked a 0.74% revenue deceleration, below our estimates that called for flattish growth. On the other hand, the Mobile sector's revenues reaffirmed the positive revenue growth trend and came in-line with our estimates showing a 1.36% increase on a y-o-y basis.

The Domestic business units confirmed the promising signs of gradual recovery, marking growth in terms of revenues generated a fact that in combination with the reduction of operating expenses delivered a substantial set of results that were characterized by the improvement of consolidated operating gains and bottom line profitability. On the other hand, we should pinpoint the weak performance of the Romanian business that reconfirmed the harsh and challenging operating environment and lead to revenue deceleration and softer operating results. In terms of operating performance, the Group's reported EBITDA ended up at 1.250bn. Euros, a satisfactory performance in-line with our expectations that called for 1.259bn.Euros in EBITDA gains due to the reduction of operating expenses incurred and the larger contribution of the Hellenic market operating earnings.

Additionally, operating profit (EBIT) surpassed our expectations that called for 426.00mn.Euros due to the combination of operating efficiency with lower depreciation expenses incurred for the period (9.28% lower depreciation expenses below our estimates). Finally, we should note that OTE's substantially lower interest expense significantly enhanced the Group's Net earnings, despite the accelerated implemented tax rate and lead to 247.60mn.Euros. surpassing our expectations that called for 204.40mn.Euros for the period.

We express our satisfaction regarding the Mobile sector's performance as the Group's actions towards digitalization and further optimization of the mobile data business and we consider it as an important headwind which could bring a satisfactory growth rate paired with operating earnings. Additionally, we are pleased to confirm the ongoing improvement in the domestic business both in Fixed and Mobile units and the positive and substantial contribution of Broadband, Fiber and TV services. However we are cautious about the harsh business environment in the Romanian market which demonstrated deceleration both in terms of revenues and profitability and still poses concerns regarding the Unit's performance and growth.

In summary, we decide to modify our estimates for the Fixed Line sector growth factoring the foreign business unit as, despite the positive signs coming from the ongoing successful gradual implementation of TV and Broadband services both in the Hellenic and Romanian Markets, we believe that the sector will demonstrate a flattish y-o-y deceleration for the 2019-2020 period in contrast to our previous estimates that called for a mild flattish growth. On the other hand, we retain our estimates for the Mobile sector's growth, as we evidenced the better than expected contribution of Mobile data services to the sector's total revenues and the positive impact on the overall profitability. Specifically, our modifications lead to cumulative revenues of 11.52bn.Euros for the 2019-2021 period below our previous estimates that called for 11.82bn.Euros respectively.

In terms of operating and net profitability, we changed our assumptions regarding the Group's operating expenses in order to adjust to the evidenced cost cutting efforts and we applied a lower interest rate as evidenced by the FY18 results. Additionally, we fine-tuned our projections for the CAPEX in order to be in line with the management's guidance. Namely our estimates for cumulative EBITDA gains for the 2019-2021 period are 3.80bn.Euros vs. 3.78bn.Euros, for Net gains 842mn. Euros from 632.00mn.Euros and finally for FCFF 1.25bn.Euros from 1.10bn.Euros previously.

Considering the above, we retain OTE's Fair Estimated Price at 12.50Euros/Share as we believe that the evidenced stability of the Hellenic macro environment, the positive contribution of Mobile Data Business, and the generation of strong FCFF in-line with our estimates could bring a satisfactory set of results and generate value to the shareholders.

## FINANCIAL SUMMARY AND VALUATION TABLES

Table I: Income Statement

INCOME STATEMENT	2018A	2019E	2020E	2021E	2022E
<b>Revenue</b>	<b>3.798.700.001</b>	<b>3.818.778.801</b>	<b>3.841.354.353</b>	<b>3.864.877.472</b>	<b>3.888.591.152</b>
Other Operating Income	83.000.000	59.191.071	59.540.992	59.905.601	60.273.163
OPEX	- 2.630.800.000	- 2.633.141.543	- 2.633.104.358	- 2.629.604.659	- 2.645.739.090
<b>EBITDA</b>	<b>1.250.900.001</b>	<b>1.244.828.329</b>	<b>1.267.790.988</b>	<b>1.295.178.414</b>	<b>1.303.125.224</b>
D&A	- 755.700.000	- 763.755.760	- 768.270.871	- 772.975.494	- 855.490.053
<b>EBIT</b>	<b>495.200.001</b>	<b>481.072.569</b>	<b>499.520.117</b>	<b>522.202.920</b>	<b>447.635.171</b>
Interest Expense	- 86.100.000	- 105.571.400	- 105.571.400	- 105.571.400	- 105.571.400
Interest Income	2.400.000	2.200.000	2.200.000	2.200.000	2.200.000
Foreign Exchanges (Net Profit/Loss)	- 300.000	- 2.166.000	- 2.166.000	- 2.166.000	- 2.166.000
Dividends from As.					
Impairment.	2.200.000				
Gains/Loss from Associates.					
<b>EBT</b>	<b>413.400.001</b>	<b>375.535.169</b>	<b>393.982.717</b>	<b>416.665.520</b>	<b>342.097.771</b>
Taxes	- 165.800.000	- 108.905.199	- 114.254.988	- 120.833.001	- 99.208.353
<b>Net Income</b>	<b>247.600.001</b>	<b>266.629.970</b>	<b>279.727.729</b>	<b>295.832.519</b>	<b>242.889.417</b>

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

Table II: Cash Flows

CASH FLOW ESTIMATIONS (E)	2019E	2020E	2021E
EBIT	481.072.569	499.520.117	522.202.920
Tax Rate	71%	71%	71%
Nopat	341.561.524	354.659.283	370.764.073
D&A	763.755.760	768.270.871	772.975.494
CAPEX	750.000.000	700.000.000	650.000.000
IWC	4.727.170	1.793.804	8.697.682
<b>FCFF</b>	<b>350.590.114</b>	<b>421.136.349</b>	<b>485.041.885</b>

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

Table III: Valuation Metrics

GROWTH	12/19E	12/20E	12/21E
Sales growth	0,53%	0,59%	0,61%
EBITDA growth	-0,49%	1,84%	2,16%
Net Profit/Loss growth	7,69%	4,91%	5,76%
RATIOS	12/19E	12/20E	12/21E
Debt/Equity	0,42	0,42	0,42
Capex/EBITDA	60%	55%	50%
ROE	9%	10%	10%
WACC	8,00%	8,00%	8,00%
VALUATION	12/19E	12/20E	12/21E
Book Value	5,99	6,57	7,19
P/BV	2,65	2,65	2,65
P/E	11	11	11

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

### Ρήτρα Περιορισμού Ευθύνης:

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### Σημειώσεις/Notes

P:	Τρέχουσα Τιμή	Market Price
MCAP:	Κεφαλαιοποίηση	Capitalization
EPS:	Καθαρά Κέρδη Ανά Μετοχή	Earnings per Share
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

### Οδηγός Συστάσεων/Ratings

<b>UV</b>	Χαμηλή Αποτίμηση/ Χαμηλός Κίνδυνος	Underpriced/ Small Risk
<b>UV1</b>	Χαμηλή Αποτίμηση/ Κίνδυνος	Underpriced/ Risk
<b>FV</b>	Σωστή Αποτίμηση/ Χαμηλός Κίνδυνος	Fairly Priced/ Small Risk
<b>OV1</b>	Σωστή Αποτίμηση/ Κίνδυνος	Fairly Priced/ Risk
<b>OV</b>	Υπερτιμημένη Μετοχή	Stock Price >10% of Fair Overvalued
<b>N/R</b>	Μη Αποτιμημένη Μετοχή	Stock Price >20% of Fair Not Rated