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Cellnex

Decent Q2, upbeat call

Stock Rating
Overweight

Industry View
Attractive

Price Target
€28.00

Cellnex has reported an in-line Q2. Revenues were +0.9% above consensus with EBITDA as expected. Iliad has emerged as a new client in Italy. FCF growth was +14% in H1, way above Euro Telco peers (ca +5%). Cash taxes remain very low. IFRS 16 implies greater debt capacity.

Revenue growth, slightly better than expected. Q2 revenues of €222mn were +0.9% above average analyst expectations. **i.** Italy was the area of strength - Cellnex has disclosed that Iliad Italy (new entrant, launched in May) has emerged as a new / paying Telco towers client. **ii.** Organic POP growth continues to run at +4% YoY (above guidance), driven by secondary tenancies. **iii.** The Bouygues Telecom towers portfolio (France) continues to expand (Q1: 1,949 sites, Q2: 2,156 sites, +207 sites QoQ). **iv.** The Broadcasting business was stable QoQ (€58.1mn per Qtr).

EBITDA of €103mn - in line with consensus. The EBITDA margin has risen from 44.7% (Q2 17) to 46.4% (Q2 18), driven by: **i.** The higher margins from secondary tenancies (ca 75%); **ii.** Benefits of *expansion* capex (as Cellnex has acquired land, opportunistically, to lower lease costs).

Cash taxes remain low. Cash taxes were -€9mn in H1, absorbing just 3% of EBITDA.

IFRS 16: Higher EBITDA, greater debt capacity. As Cellnex adopts new IFRS 16 accounting standards, it will see its leverage fall from 5.5x to 4.8x (Net Debt / EBITDA). Although early days in this transition, Cellnex's CFO (Jose Manuel Aicha) believes the move will imply "more leverage capacity, and the same debt rating". Cellnex continues to target a Net Debt / EBITDA ceiling of 6.5x. We estimate the increased debt capacity could be ca €0.4bn (MSe). Moreover, as per the new IFRS 16 standards, 2018 EBITDA guidance rises from ca €410mn to ca €584mn (as lease costs are stripped out) - although FCF guidance remains unchanged.

New Chairman - Marco Patuano. Cellnex has separated the role of CEO and Chairman. This is best practice from a corporate governance perspective, we believe (independence of the Board from the executive team). Tobias Martinez will remain as CEO of Cellnex. Marco Patuano of Edizione, Cellnex's largest shareholder (29% stake), will join as Chairman. As the Former CEO of Telecom Italia, we believe that Mr Patuano knows the wireless industry well and, equally importantly, also the executive teams (CEOs, CFOs, CTOs) of many European Telcos (existing and prospective Cellnex clients).

(Small) acquisition of Catalan fibre company. Cellnex has acquired XOC for

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Cellnex Telecom SA (CLNX.MC, CLNX SM)

Telecommunications Services / Spain

Stock Rating	Overweight
Industry View	Attractive
Price target	€28.00
Shr price, close (Jul 26, 2018)	€22.94
52-Week Range	€23.66-17.86
Mkt cap, curr (mn)	€5,315
EV, curr (mn)	€7,734

Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
Revenue (€mn)**	792	891	942	979
EBITDA (€mn)**	354	418	449	478
Capex (€mn)	113	130	124	116
Int paid, cash flow (€mn)	41	60	54	50
Taxes paid, cash flow statement (€mn)	13	14	15	16
EPS (€)**	0.14	0.06	0.39	0.49
ModelWare EPS (€)	0.14	0.06	0.39	0.49
Prior ModelWare EPS (€)	-	-	-	-
Div yld (%)	0.4	0.4	0.5	0.5

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

** = Based on consensus methodology
e = Morgan Stanley Research estimates

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€34mn (ca 6x EBITDA), XOC is the owner of a Catalan fibre concession (with 3K of fibre network in NE Spain). Cellnex will seek to connect this fibre to the antenna / site (FTTA); **i.** Cellnex believes it can up-sell fibre to Telcos, for an incremental service fee (as Crown Castle is seeking to do in the US); **ii.** This business is scale-able, with scope to sell to multiple Telcos, at the same site; **iii.** Fibre will grow in importance as Europe enters a 5G world (>2021); **iv.** Offering fibre services is consistent with Cellnex's MSA (Master Service agreement, signed with Bouygues, Sunrise), a contract structure which gives Cellnex a strategic / commercial advantage when seeking to buy towers portfolios ahead of other TowerCos, who typically sell MLAs (Master Lease Agreements). *Cellnex is increasingly expanding into new services - DAS, fibre and small cells; we think it plausible that data centres and edge computing could be future targets.*

Other points of interest - from Investor Call. **i.** The number of sites has increased slightly in both Italy (+43) and Spain (+28, QoQ), driven 60% by small acquisitions and 40% by *Build-to-Suit*. The growth rate here is +2% on an annual basis; **ii.** The NL remains a market of focus for potential Cellnex expansion, given their established presence (via Protelindo, Shere and Alticom); **iii.** Cellnex is interested in multi-tenant small cells - although this product is unlikely to be commercially available until after 2019. A trial is currently taking place with an equipment vendor and two MNOs in Barcelona; **iv.** The DAS strategy remains unchanged, with ongoing focus on indoor coverage (e.g. football stadia). DAS commercial momentum is gathering serious pace, with nodes up +20% YoY (largely via ownership of Commscom).

Q2 results Summary

Exhibit 1: Overview of 2Q18 Results

	Actual Q2 18	Actual Q2 17	Reported Growth	Consensus Q2 18	Difference
Key Financial Metrics					
Revenues	222	190	16.8%	220	0.9%
of which Telecom Site rental	145	110	31.3%	--	--
of which Broadcast	58	60	(3.5%)	--	--
of which Network Services, Other	19	20	(3.4%)	--	--
EBITDA	103	85	21.1%	103	(0.1%)
<i>EBITDA Margin</i>	46.4%	44.7%	--	46.8%	--

Source: Morgan Stanley Research

PT methodology and risks

CLNX.MC

Valuation methodology: We use a DCF to value Cellnex, assuming a long-term growth rate of 2.5% and WACC of 6.3%. This gives us our price target of €28.0/share.

Downside risks: 1) MNOs may not embrace tower outsourcing. 2) Failure to increase towers portfolio or to attract 2nd tenants. 3) Mobile consolidation could see operators curtail sites/network expansion. 4) Deflation, contract roll-over, regulation, small-cell deployment via third parties, special taxes.

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1170	38%	292	39%	25%	550	39%
Equal-weight/Hold	1343	43%	363	49%	27%	645	46%
Not-Rated/Hold	50	2%	5	1%	10%	7	0%
Underweight/Sell	544	18%	81	11%	15%	211	15%
TOTAL	3,107		741			1413	

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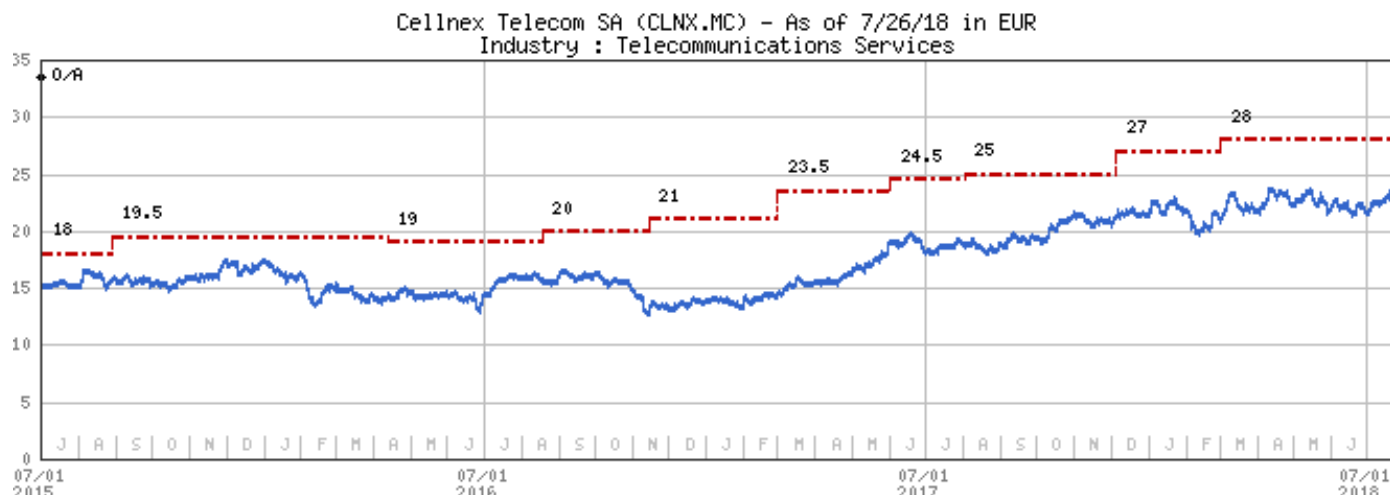
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Stock Rating History: 7/1/15 : 0/A

Price Target History: 6/16/15 : 18; 8/28/15 : 19.5; 4/12/16 : 19; 8/18/16 : 20; 11/14/16 : 21; 3/1/17 : 23.5; 6/2/17 : 24.5; 8/2/17 : 25; 12/5/17 : 27; 3/1/18 : 28

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
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INDUSTRY COVERAGE: Telecommunications Services

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/26/2018)
Emmet B Kelly		
Alice NV (ATCA.AS)	E (07/27/2018)	€2.80
Cellnex Telecom SA (CLNX.MC)	O (06/16/2015)	€22.94
Deutsche Telekom (DTEGn.DE)	++	€13.87
Iliad (ILD.PA)	U (04/23/2018)	€143.15
Orange (ORAN.PA)	O (01/27/2016)	€14.30
Telefonica Deutschland Holding AG (O2Dn.DE)	U (12/17/2015)	€3.68
Vodafone Group (VOD.L)	++	177p
Luis Prota		
KPN (KPN.AS)	O (10/14/2014)	€2.53
OTE (Hellenic Telecoms.) (OTEr.AT)	O (05/12/2016)	€10.92
Proximus (PROX.BR)	U (01/27/2017)	€20.10
Sunrise Communications Group AG (SRCG.S)	E (04/26/2018)	SFr 87.10
Swisscom (SCMN.S)	U (09/16/2015)	SFr 456.30
Telecom Italia (TLIT.MI)	O (07/08/2015)	€0.62
Telecom Italia (TLITn.MI)	O (07/08/2015)	€0.54
Telefonica (TEF.MC)	E (05/06/2015)	€7.63
Ricard Boada		
Euskaltel SA (EKT.L.MC)	E (12/11/2017)	€8.02
Infrastrutture Wireless Italiane SpA (INWT.MI)	E (10/24/2016)	€6.73
MasMovil Ibercom SA (MASM.MC)	O (07/19/2017)	€95.40
Nos SGPS SA (NOS.LS)	E (12/19/2017)	€4.91
Rai Way SpA (RWAY.MI)	E (05/18/2017)	€4.99
Telenet Group Holding (TNET.BR)	O (07/11/2018)	€38.44
Terence Tsui		
BT Group plc (BT.L)	E (05/31/2017)	225p
Com Hem Holding AB (COMH.ST)	O (03/20/2015)	SKr 159.60
DNA OYJ (DNAO.HE)	E (09/12/2017)	€17.47
Elisa Oyj (ELISA.HE)	E (09/14/2016)	€37.54
Inmarsat (ISAL)	E (05/23/2016)	550p
TalkTalk Telecom Group PLC (TALK.L)	E (10/28/2015)	114p
Tele2 (TEL2b.ST)	O (06/14/2018)	SKr 120.25
Telenor (TEL.OL)	E (12/12/2017)	NKr 157.35
Telia Company AB (TELIA.ST)	++	SKr 41.49

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.