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EQUITY RESEARCH/ UPDATE/ HELLENIC TELECOM. ORGANIZATION (OTE) /TELECOM

09/09/16

We retain our investment thesis for OTE's share on the back of HY16 results while expressing our caution for the future performance.

According to HY'16 results announcement, OTE Group's revenues were down 0.06% from the previous period. The Fixed Line sector's Revenues were only 0.06% lower than HY15 mainly due to the positive contribution of VDSL and OTE TV which managed to offset the continuing weakness of the traditional voice services. In the Mobile sector, the sales were lower 1.68% for a consecutive quarter due to the challenging and competitive environment in the markets of Romania and Albania as well as the weak macroeconomic conditions in Greece.

We pinpoint that HY16's operating costs were improved despite of the lower operating margin for the Broadband in Romania and the unfavorable offered product mix in the Mobile sector in the markets of Romania and Albania. The improvement is attributed to the substantially lower expenses for the early retirement program (7.7mn. Euros vs. 85.7mn. Euros in the respective period). The Group's guidance for the full year expenses of the said program stands to 37.7mn Euros vs. 100.5mn Euros for the fiscal year of 2015.

OTE Group sectors' HY16 performance did not come in line with our expectations as we had projected a positive growth rate for the Fixed line sector (+1.5% y-o-y) and slower revenues decrease for the Mobile sector (-1% y-o-y) respectively. Considering the reasons mentioned above we decided to adjust our expected growth rates for the full year and for the 2017-2019 period to a slower pace for the Fixed Line sector while we believe that the TV and Broadband business could still enhance the sector positively. Additionally, in the Mobile sector we have applied a revenues deceleration for the 2016-2019 period as the intense competition hurts the level of sales and operating and profitability margins.

These adjustments are slightly changing our base scenario for OTE Group's performance which incorporates stable sales of c. 3.9bn Euros for the period 2016 to 2019 and decreases the expected annual Cash Flow generation. Accordingly, the EV calculation and the respective FV for the Group's Share price end up in lower levels in all the three Risk free yield scenarios (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%) vs. the previously stated calculations (see. HELLENIC TELECOMMUNICATIONS ORGANIZATION (HTO) 250216). We stay put for the time being and will be considering a possible downgrade in the following quarters.

Ρήτρα Περιορισμού Ευθύνης:

Απαγορεύεται η αναδημοσίευση του παρόντος χωρίς την άδεια της Ν. ΧΡΥΣΟΧΟΪΔΗΣ ΧΡΗΜΑΤΙΣΤΗΡΙΑΚΗΣ Α.Ε.Π.Ε.Υ. Οι απόψεις που περιέχονται βασίζονται σε πηγές που θεωρούνται αξιόπιστα. Η Ν. ΧΡΥΣΟΧΟΪΔΗΣ ΧΡΗΜΑΤΙΣΤΗΡΙΑΚΗ Α.Ε.Π.Ε.Υ. δεν ευθύνεται για την εγκυρότητα, ορθότητα ή αξιοπιστία τους και διατηρεί το δικαίωμα αλλαγής τους χωρίς πρότερη ειδοποίηση. Τόσο η Ν. ΧΡΥΣΟΧΟΪΔΗΣ ΧΡΗΜΑΤΙΣΤΗΡΙΑΚΗ Α.Ε.Π.Ε.Υ. όσο και οι διευθύνοντες και υπάλληλοι της δεν φέρουν ουδεμία ευθύνη για οποιαδήποτε συνέπεια των πληροφοριών αυτών. Το παρόν δεν αποτελεί προσφορά, πρoτoράση για αγορά ή πώληση μετοχών ή άλλων κινητών αξιών. Οι επενδύσεις που αναφέρονται ενδέχεται να μην είναι οι ενδεδειγμένες για ορισμένους επενδυτές.

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Symbol: HTO AG.

Market: ATHENS STOCK EXCHANGE

THESIS: FV

FAIR EST.VALUE: 9.06Euros/Share

Closing Price (08/09/16): 8.61 Euros/Share

Market Cap. 4.220 mn.

P/E: 27