



HELLENIC TELECOMMUNICATIONS ORGANIZATION.

Outlook:

We upgrade OTE's fair estimated price to 12.50Euros/Share from 10.58Euros/Share previously, based primarily on the improvement of the Hellenic Republic's investment risk as reflected by the current level of 10Y GGB yield as well as the expected positive impact coming from the improvement in the business conditions of the Hellenic Market to the Group's main revenue drivers.

FY'17 results at a glance:

OTE's consolidated revenues reached 3.857mn.Euros marked by the marginal deceleration in the Fixed Line Sector's revenues despite the positive contribution of VDSL and TV services in the Hellenic Market.

However, Mobile sector's revenues reversed the previous year's downtrend, showing strong performance in the Hellenic Market.

Other income was down 32% mainly driven by the deceleration of foreign wholesale revenues (OTE Global).

The Group's EBITDA came up at 1.242mn.Euros below the previous year's 1.267mn.Euros.

Finally, OTE Group's Net Profit attributed to Shareholders came up at 67.00mn.Euros vs. 140mn. Euros in FY16, substantially affected by the Q4'17 impairment recognition for the Group's foreign business units.

Date: 27/02/18

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

Investment Thesis: **IV**

Key Statistics:

Valuation	27/2/2018
Share Price	11,92
Price High 52 week	12,72
Price Low 52 week	8,45
Current num. of shares	490.150.389
Trailing P/E	25
Market Cap.	5.842.592.637
EPS (Trailing)	0,14
DPS(Proposed)	0,35
<i>*Closing Price as 23/02/2018</i>	

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HELLENIC TELECOMMUNICATIONS ORGANIZATION (OTE)

OTE's FY 17 results showed a flat deceleration in the consolidated revenues on a y-o-y basis, which did not live up to our estimates for single-digit acceleration. Specifically, the Fixed Line sector showed a 0.06% contraction instead of a mild (0.80%) growth. Additionally, the Group's other revenues decelerated by 36.00%, a fact attributed to the reduction on Wholesale foreign sales (OTE Global). Contrasting the above, the Mobile sector's revenues marked a 1.52% increase, beating our estimates for 4,00% deceleration, thus indicating a positive surprise.

In terms of Operating performance, the Group's reported EBITDA margin came up at 31.79%, a performance below our expectations for 34.00% due to the ongoing increased expenses incurred for the interconnection of rural areas (Rural Broadband and Ronet). Furthermore, operating profit (EBIT) was substantially affected by the Q4'17 impairment recognition from the foreign business units and came up significantly below our expectations that called for 440mn.Euros. Finally, OTE's effective tax rate for the period is at 86% from 66% in the previous year, leading to a 52% decrease in Net income attributed to Shareholders.

In summary, OTE's FY'17 performance could be characterized as mixed: We are clearly satisfied by the Mobile sector's performance as after three years of revenue deceleration the Group finally demonstrated a satisfactory growth rate surpassing our expectations. We are equally - and slightly- cautious towards the Fixed Line unit's performance as FY 17 was another year of marginal overall revenue deceleration albeit paired with a positive trend in domestic sales, mainly due to OTE TV that made a positive and satisfactory contribution, proving an important revenue driver. Finally, we were disappointed by the ongoing increased operating expenses due to the interconnection projects incurred; a factor that is harming the Group's operating profitability.

We decide to retain our estimates for the Fixed Line sector growth despite the y-o-y flat deceleration due to the signs of successful gradual penetration of OTE TV in the Hellenic Market and the strong performance of Voice services and VDSL in the Hellenic Market respectively. Moreover, we decide to slightly increase 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. Finally, we still regard the heavy tax expense and the impairment recognition as one-off events and believe that Group earnings will revert to their historical and evidenced margins in the forthcoming period. We have already incorporated c.750mn Euros of CAPEX in our DCF model following the management's guidance.

In closing remarks, we would like to point out that since an integral part of our valuation was the projected stabilization of the 10Y GGB yield at 5.50% (see *HELLENIC TELECOMMUNICATIONS ORGANIZATION160517*), the evidenced improvement in the yield at the 4,50% level significantly enhances OTE's fair estimated price which NOW amounts to 12,50 Euros/Share.

Considering the above, we decide to upgrade the Group's Fair Estimated Price as we believe that the evidenced stability of the Hellenic macro environment could further boost OTE's domestic operations and fundamental revenue drivers. On the other hand, taking into consideration the impairment recognition of the foreign business units as well as the projected increased CAPEX spending for FY 2018 requires that we remain cautious regarding our expectations regarding the anticipated growth of the foreign markets and the amount of FCFF generated for the forthcoming period. As a result, we indicate that OTE is fairly priced at 12,50Euros/Share.

FINANCIAL SUMMARY AND VALUATION TABLES

Table I: Income Statement

Income Statement	2017A	2018E	2019E	2020E	2021E
Revenues	3.857.100.001,00	3.874.606.881	3.900.907.556	3.949.659.237	3.973.994.101
Other Operating Income	51.400.000,00	60.056.407	60.464.067	61.219.718	61.596.909
OPEX	-2.666.000.000,00	-2.675.571.035	-2.689.771.332	-2.707.343.294	-2.703.845.976
EBITDA	1.242.500.001,00	1.259.092.252	1.271.600.291	1.303.535.661	1.331.745.033
D&A	-937.000.000	-833.040.479	-858.199.662	-868.925.032	-874.278.702
EBIT	305.500.001	426.051.773	413.400.629	434.610.628	457.466.331
Interest Expenses	-139.400.000	-138.199.800	-138.199.800	-138.199.800	-138.199.800
Interest Income	1.600.000,00	2.200.000,00	2.200.000,00	2.200.000,00	2.200.000,00
Foreign Exchanges (Net Profit/Loss)	-12.200.000,00	-2.166.000,00	-2.166.000,00	-2.166.000,00	-2.166.000,00
Investment in Ass.	19.000.000,00				
EBT	174.500.001	287.885.973	275.234.829	296.444.828	319.300.531
Taxation	-151.700.000	-83.486.932	-79.818.100	-85.969.000	-92.597.154
Net Income/Loss	22.800.001	204.399.041	195.416.729	210.475.828	226.703.377

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

Table II: Cash Flows

Cash Flow estimations (E)	2017A	2018E	2019E
EBIT	305.500.001	426.051.773	413.400.629
Taxation (1-Tax Rate)	13%	71%	71%
NOPAT	39.916.334	302.496.759	293.514.447
Depreciation	937.000.000	833.040.479	858.199.662
Capital Exp.	919.900.000	800.000.000	700.000.000
IWC	186.300.000	19.707.873	7.756.968
NCF	-129.283.666	315.829.366	443.957.140

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

Table III: Valuation Metrics

Growth	12/17A	12/18E	12/19E
Sales growth	-1,30%	0,45%	0,68%
EBITDA growth	-1,94%	1,34%	0,99%
Net Profit/Loss growth	-72,89%	796%	-4%
RATIOS	12/17A	12/18E	12/19E
Debt/Equity	0,36	0,36	0,36
Capex/EBITDA	74%	64%	55%
ROE	3%	3%	3%
WACC	8,00%	8,00%	8,00%
VALUATION	12/17A	12/18E	12/19E
Book Value	11,50	11,50	11,50
P/BV	1,04	1,04	1,04
P/E	87	30	30

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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 Ίδιων Κεφαλαίων	Return on Equity
FV:	Τιμή Σωστής Αποτίμησης	Fair Value Price

Οδηγός Συστάσεων/Ratings

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