

A toolbox for financial analysis

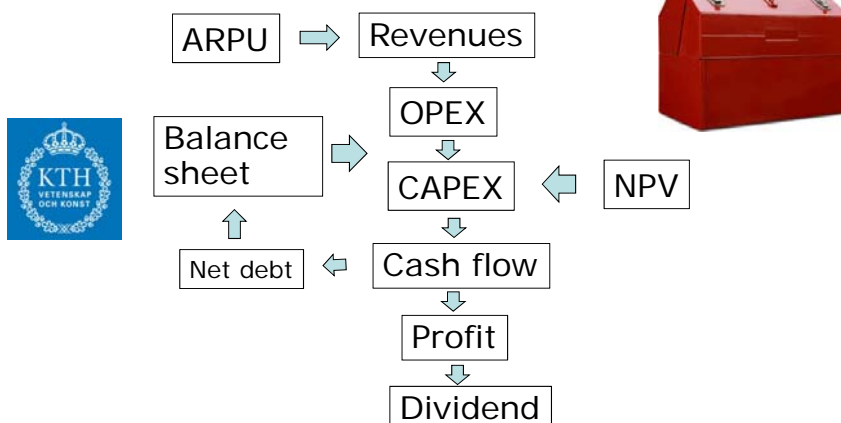


8 November 2011, 09-10

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Ten concepts in focus



BP needs to come up with a vision of what its raison d'etre is...

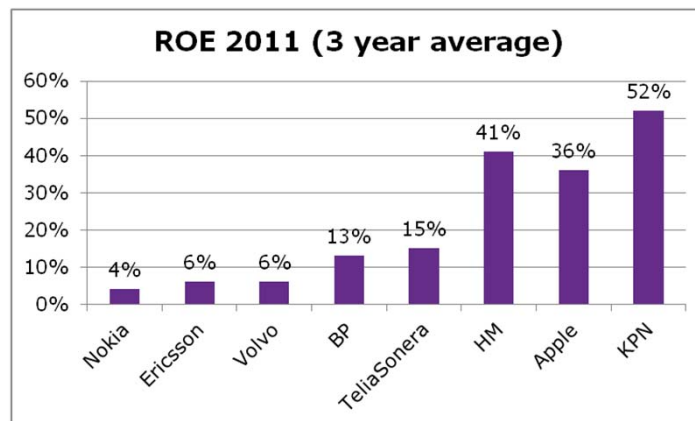


“ the market needs to see what the capital base is, what they are doing with it and what the returns on capital will be”

Financial Times 20110913

3

Return on Equity

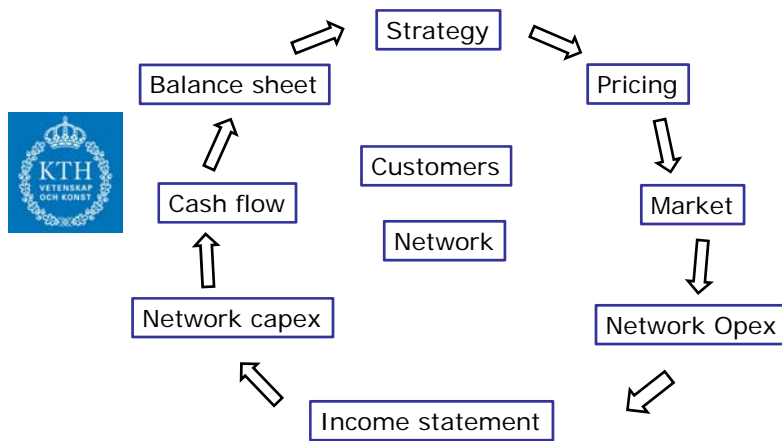


ROE is a measure of how well a company use reinvested earnings to generate additional earnings.
ROE = net income divided by shareholder equity

Source: Bloomberg

4

Mobile Operator Business



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Toolbox: ten concepts

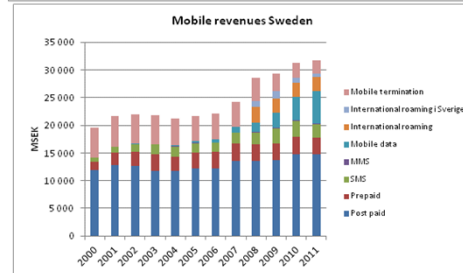
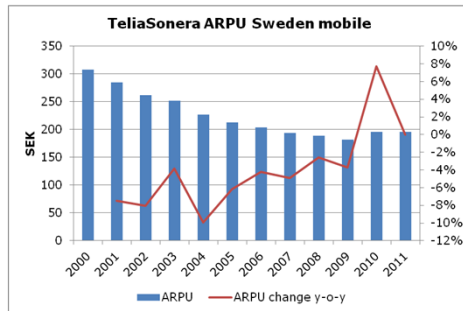
- Average Revenue Per User (ARPU)
- Revenues
- Operational expenditures (Opex)
- Capital expenditures (Capex)
- Cash flow
- Balance sheet
- Net debt
- Net present value (NPV)
- Profit margin
- Dividend



6

#1 ARPU

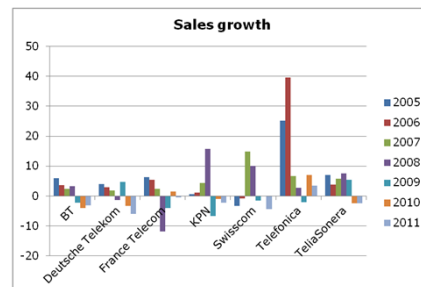
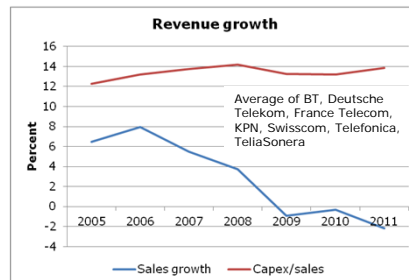
- Average revenue per user per month is what customers are paying, and other revenues
- Average ARPU SEK 200 per subscriber
- Revenues = Users x ARPU
- Mobile revenues Sweden is only end customer revenues
- Other revenues: termination charges, roaming charges, handset sales



Source: Teliasonera, PTS

#2 Revenues

- It is all about the share of wallet and how money is spent (Share of GDP)
- Swedish households spend annually ~SEK 10000 on communications
- It represents ~3% of disposable income

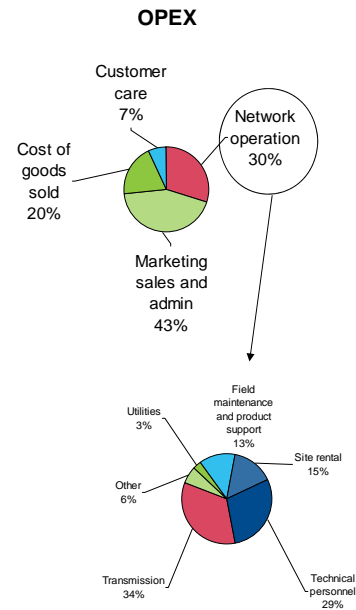


Source: Bloomberg

#3 OPEX



- OPEX is ongoing costs for running a business or a network
- Paid in cash from the revenue stream derived from operations
- How could it be reduced? Reducing personnel, cut down on marketing, outsource functions, share infrastructure with competition



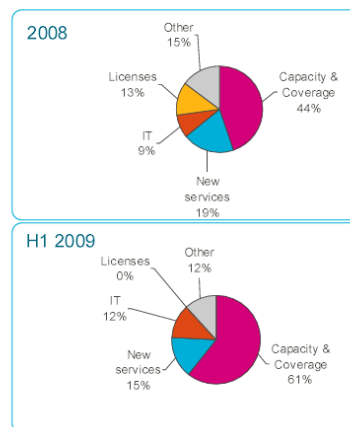
Source: Long Term Evolution, White paper Nokia Siemens Networks

#4 Capex



- Capex is investments in intangible and tangible non-current assets: network equipment, site IT-systems, billing
- Capitalized, and amortized over the life time of the asset
- Capex-to-sales ~ 10-15% depending upon market and corporate strategy
- Ways to lower capex: postpone network upgrades and replacement, infrastructure sharing

CAPEX model TeliaSonera



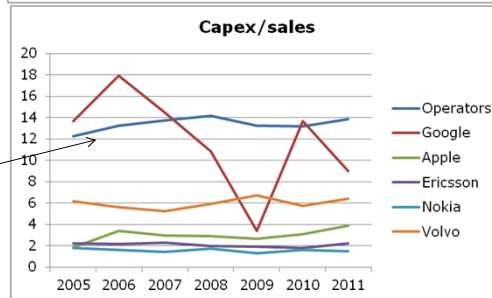
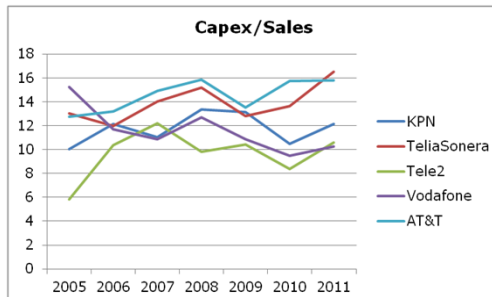
Source: TeliaSonera, 2009 report

#4 Capex

TeliaSonera guidance 2012: capex-to-sales ratio of 13-14% (excluding license and spectrum fees). The ratio for Q1-Q3 2012 was 13.7%



The sample of operators consists of: BT, Deutsche Telekom, France Telecom, KPN, Swisscom, Telefonica, and TeliaSonera



Source: Bloomberg

11

5 Cash flow

Portugal Telecom

Robust set of financials and attractive shareholder remuneration



Cash flow = EBITDA – Capex



Financial highlights

	4Q09	Δ% y.o.y	FY09	Δ% y.o.y	Pro-forma ¹⁾ growth
Operating revenues	1,812	+6.7%	6,785	+0.9%	+2.3%
Contribution from international assets (Pct)	53.7	+4.9pp	51.5	+1.8pp	
EBITDA	648	+5.6%	2,502	+0.9%	+2.0%
EBITDA margin (Pct)	35.8	-0.4pp	36.9	+0.0pp	
Net income	312	+118.8%	684	+18.7%	
EPS (Euro)			0.78	+22.9%	
Capex	455	-17.4%	1,268	+2.1%	
Net debt			5,528	-0.8%	
After-tax unfunded pension liability			1,079	-18.9%	
Dividend per share (Euro)			0.575		

¹⁾ Adjusted for the effects of the acquisition of Telecom Italia ITK and using constant exchange rate

PORTUGAL TELECOM | 2010-2011

Source: Portugal Telecom Q4 09

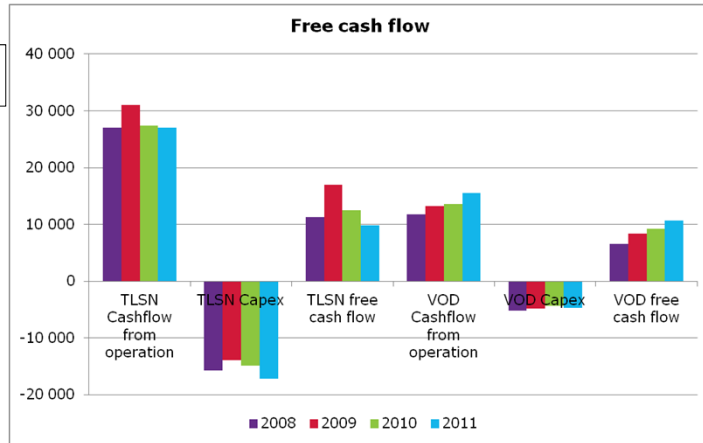
12

#5 Cash flow

TeliaSonera MSEK
Vodafone MGBP



Cash from operations = revenues less all operating expenses, cash that a company generates through running its business



Source: Bloomberg

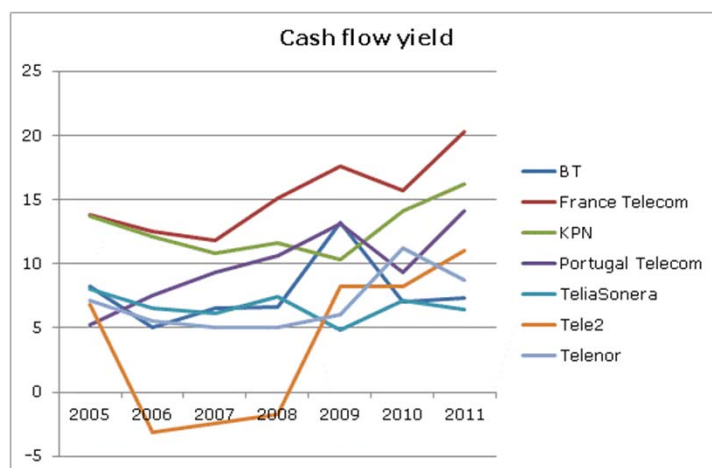
13

5 Cash flow



Cash flow yield =
Free cash flow/market capitalization

Simplified definition
Free cash flow =
EBITDA - Capex



Source: Bloomberg

14

#6 Balance sheet



- Strong balance sheet gives a strong bargain position towards banks and credit institutions
- Balance the share of own capital and debt
- Others money is debt = interest-bearing liabilities
- Existing money is short-term investments and cash
- Balance return on equity (less debt higher share own equity) with risk
- How to impact net debt
- Cash flow
- Dividend
- Debt

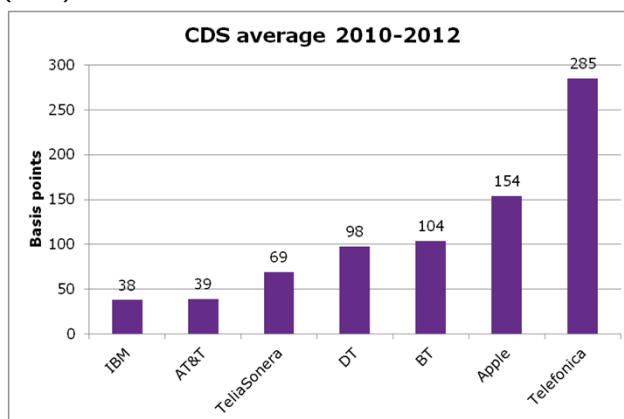
15

#6 Balance sheet

Credit Default Swap (CDS)



CDS = A swap designed to transfer the credit exposure of fixed income products between parties.



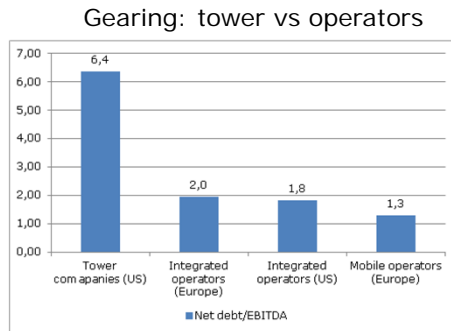
Source: Bloomberg

16

#7 Net debt



- Net debt = Interest-bearing liabilities less short-term investments and cash
- Gearing: Net debt/EBITDA, average 1.73 among European operators
- Gearing: net debt/enterprise value, average 36% among European operators
- Funding cost depends on credit rating



Source: Bloomberg

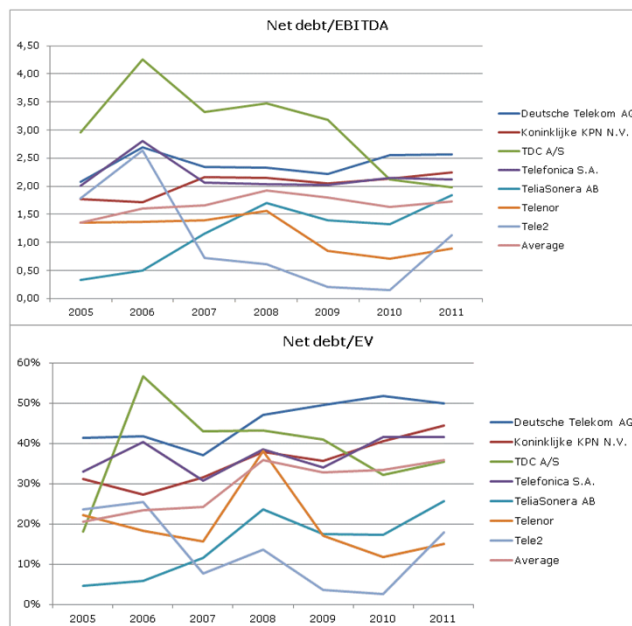
17

#7 Net debt



TeliaSonera:
medium-term
target of Net
debt/EBITDA of
1.5-2.0x

Source: Bloomberg



18

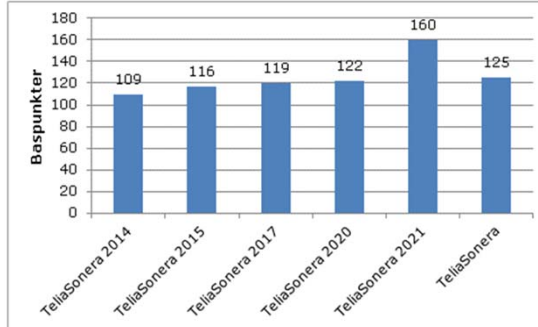
#7 Net debt (funding cost)

Spread: bond yield
– benchmark bond
(government
bonds)

Company	Spread	Ticker	Amount	Currency	Rating	Benchmark bond
TeliaSonera 2017	76	TLSNSS 4.75 03/07/17 Corp	750	EURm	A-	DBR 3 3/4 01/04/17
TeliaSonera 2020	86	TLSNSS 4.25 02/18/20 Corp	750	EURm	A-	DBR 3 1/4 01/04/20
TeliaSonera 2021	142	TLSNSS 4.75 11/16/21 Corp	850	EURm	A-	DBR 3 1/2 07/04/19
TeliaSonera	102					



- Rating by S&P
- Bonds are traded on a secondary market
- The spread gives an indication of the funding cost on top of risk free rate



Source: Bloomberg

19

8 Dividend

Portugal Telecom

Robust set of financials and attractive shareholder remuneration

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Profit after tax



Capex/sales 19%

Net debt/EBITDA 2.2

Dividend yield 6.75%

Source: Portugal Telecom Q4 09

20

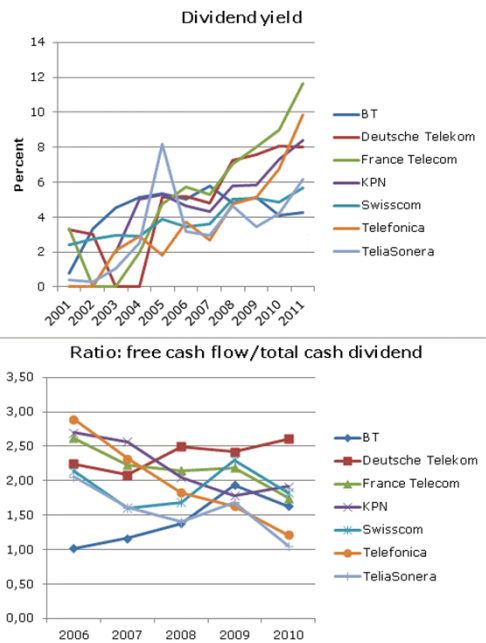
8 Dividend

Dividend yield =
dividend/share price



The ratio show the relation between free cash flow and dividend. It gives an indication of the company's ability to cover its dividend.

Source: Bloomberg



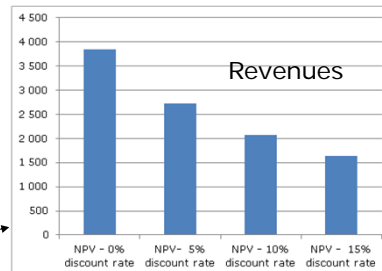
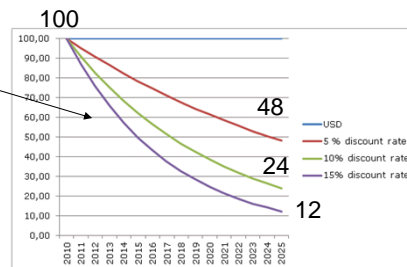
21

#9 Net Present Value

- The discount rate has a significant impact EUR 100 represents EUR 12-48 in 2025
- Net present value (NPV) of a time series of cash flow is the sum of the present values
- NPV is the difference between the present value of cash inflows and the present value of cash outflows
- Used to determine if a project is worth to invest in or not



Case Operator
Revenues 2010-2025
1 million subscribers
ARPU EUR 20
NPV

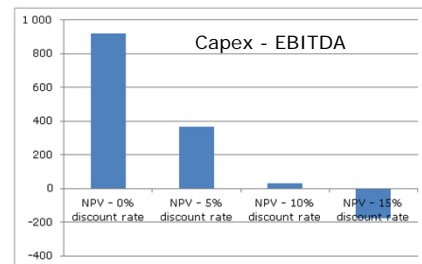
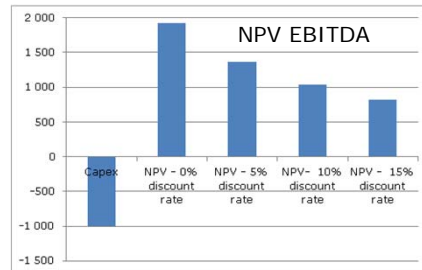


22

#9 NPV (2)



- Revenues – Opex (in this case 50%) = EBITDA margin (in this case 50%)
- NPV varies from EUR 820-1900 m depending upon discount rate
- Let us assume Capex of EUR 1 bn to build the network
- Is it a good deal?
- Depends on discount rate
- 0-10%: positive NPV, go ahead
- 15%: loss, reconsider, explore other opportunities



23

#10 Profit

Revenues, +1%

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization, 37%



Profit after tax

EBIT: Earnings Before Interest and Taxes

Pretax Profit

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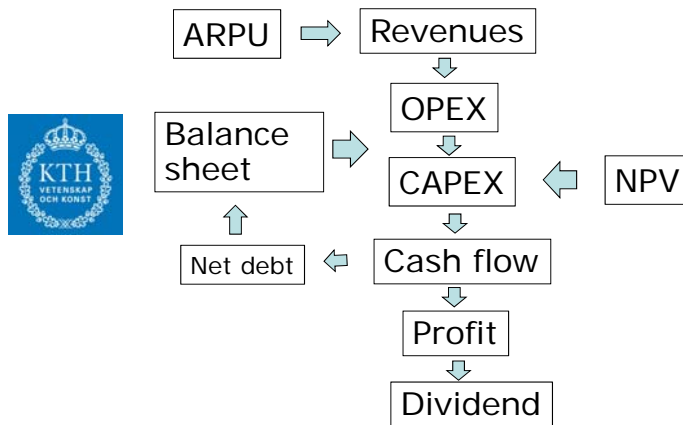
¹⁾ Adjusting for the effect of the consolidation of Telecom Base STs and value contract exchange rate.

PORTUGAL TELECOM | 2009

Source: Portugal Telecom Q4 09

24

Prepared to use the financial tool box



25

Concluding



- Teen key concept: the financial tool box
- Develop and manage operation but also manage the financial and capital structure
- Key to balance cash flow with growth
- And to demonstrate how the capital is used in order to reach the appropriate returns of the capital base

“ the market needs to see what the capital base is, what they are doing with it and what the returns on capital will be” Source: FT

26