

Building a Hungarian-owned national champion

IT services

4iG's transformation into a leading national and regional telco continues apace. 4iG, together with the Hungarian state, has announced non-binding heads of terms with Vodafone to acquire a 100% stake in Vodafone Magyarország Távközlési (Vodafone Hungary), Hungary's second-largest telco, for an enterprise value of HUF715bn (€1.8bn), payable in cash. The transaction represents a multiple of 7.7x EV/adj. EBITDA for the 12-month period ending 31 March 2022. Factoring in management's expected synergies of HUF150bn, the acquisition multiple falls to 6.1x. The deal is expected to close by the end of the year, subject to confirmatory due diligence, final documentation and regulatory approval. On completion, 4iG will take a 51% stake in Vodafone Hungary, with the Hungarian state owning 49%. Funding has not yet been disclosed. We expect to reinstate our forecasts following the Q222 results in September.

Year end	Revenue (HUFbn)	PBT* (HUFbn)	EPS* (HUF)	DPS (HUF)	P/E (x)	Yield (%)
12/19	41.1	3.3	30.8	22.0	26.7	2.7
12/20	57.3	4.2	37.7	22.5	21.8	2.7
12/21	93.7	8.7	74.6	29.0	11.0	3.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments

Combined entity would be a major player

Vodafone Hungary is the second-largest player in the Hungarian telecoms market (after Telekom Hungary) in terms of subscriptions, serving more than 3.8m residential and business subscribers (3.0m mobile, 0.8m fixed). Vodafone Hungary's FY22 net revenue was HUF278bn with adjusted EBITDA over HUF93bn. As of July 2022, the group also had 5.0m revenue generating units (RGUs) (3.0m mobile, 0.7m TV, 0.7m broadband and 0.6m fixed voice). On a pro forma basis, the combined group would have 5m customers and 7.6m RGUs as of July 2022.

4iG anticipates the NPV of synergies at HUF150bn

4iG's management estimates the combined NPV of revenue, cost and capex synergies for the planned transaction at more than HUF150bn. This figure includes the potential for further growth through cross-selling and full fixed-to-mobile convergence, as well as through scale, with material B2B and B2C revenue synergies anticipated. Vodafone's shared services business in Hungary, VOIS, is not included in the transaction.

6.1x FY22 EV/adj. EBITDA factoring in synergies

The transaction represents a multiple of 7.7x EV/EBITDA for the 12-month period ending 31 March 2022, or 9.1x adjusted earnings before interest, tax, depreciation and amortisation after leases (EBITDAaL). If we reduce the headline enterprise value by the net present value of the targeted synergies (HUF150bn), the resultant FY22 EV/adj. EBITDA multiple falls to 6.1x post-synergies, or 2.0x EV/sales. This compares to historic trading multiples across the European telecoms sector of c 1.8–2.3x EV/sales and 6–7x EV/EBITDA. The clear strategic benefits of the transaction would appear to justify the premium price.

30 August 2022

Price HUF822

Market cap HUF241bn

HUF412/€

Net debt (HUFbn) at 31 March 2022 453

Shares in issue 293.7m

Free float 11.5%

Code 4iG

Primary exchange Budapest

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 5.9 (8.1) (29.2)

Rel (local) 4.4 (5.8) (21.9)

52-week high/low HUF1094 HUF700

Business description

4iG is a regional ICT/telecoms group, based in Hungary and focused on two core areas: telecoms and infrastructure, built around its acquisition of Antenna Hungária, and investments in the West Balkans; and IT services, where it is the number one IT systems integrator in Hungary.

Next events

Q222 results 1 September 2022

H122 results October 2022

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Heads of terms agreed for Vodafone Hungary

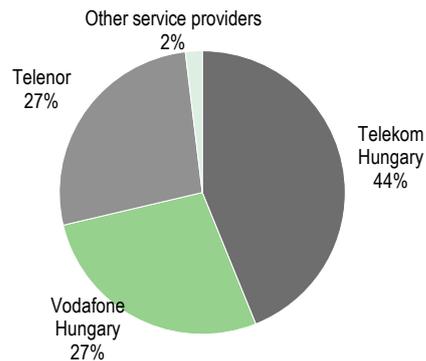
A clear number two in the Hungarian telecoms market

4iG acquired its wired and satellite infrastructure through the purchase of DIGI Group (January 2022), as well as a strong market presence in wired internet, pay-TV and digital terrestrial broadcasting. The acquisition of Vodafone Hungary would make 4iG a major mobile player in a single step, lifting 4iG to become the clear number two in the Hungarian telecoms market, close on the heels of Telekom Hungary. The transaction would also deliver competencies including data network solutions, virtual data centres and IoT technologies on top of this.

Based on latest data from the National Media and Infocommunications Authority, Hungary (NMHH) for August 2021:

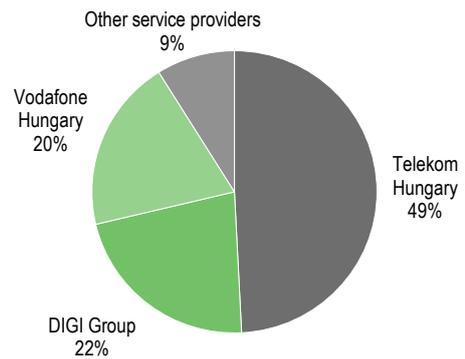
- Telekom Hungary is the clear market leader in mobile voice, with a 44% market share (Exhibit 1). Vodafone Hungary has the second-largest market share with 27%, closely followed by Telenor, also with a 27% share of the market.
- In wired voice (Exhibit 2), Telekom Hungary retains a 49% market share, while the pro forma combination of 4iG and Vodafone Hungary would hold 42%.

Exhibit 1: Mobile voice market share



Source: NMHH, Edison Investment Research

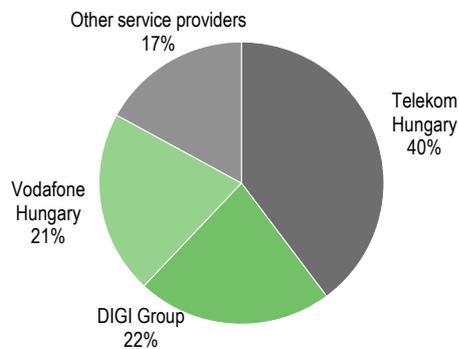
Exhibit 2: Wired voice market share



Source: NMHH, Edison Investment Research

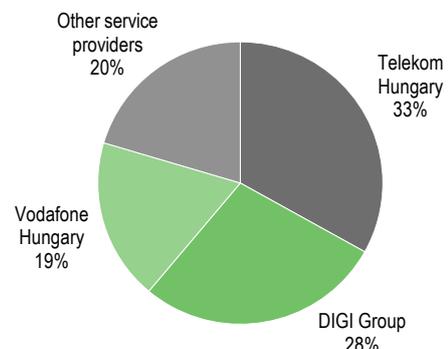
- In terms of the share of internet services (Exhibit 3), 4iG/Vodafone Hungary together hold a 43% domestic market share, with Telekom Hungary holding a 40% share.

Exhibit 3: Market share for fixed broadband internet subscriptions



Source: NMHH, Edison Investment Research

Exhibit 4: Market share for internet TV services



Source: NMHH, Edison Investment Research

- As for internet TV (Exhibit 4), 4iG/Vodafone Hungary will be the clear market leader across mobile and fixed services, with a 47% market share, compared to Telekom Hungary's 33% market share.

Strategic premium helps justify valuation multiple

The terms agreed with Vodafone, value Vodafone Hungary at an enterprise value of HUF715bn, for a company that generated net revenue for the year to 31 March 2022 of HUF278bn and adjusted EBITDA of over HUF93bn. This equates to an EV/sales multiple of 2.6x and an EV/Adj. EBITDA multiple of 7.7x, or 9.1x adjusted earnings before interest, tax, depreciation and amortisation after leases (EBITDAaL), as disclosed by Vodafone (implying FY22 lease payments of c HUF14bn).

However, the envisaged transaction also offers the potential for further growth through cross-selling and full fixed-to-mobile convergence, as well as through scale, with material B2B and B2C revenue synergies anticipated. 4iG's management estimates combined net present value of revenue, cost and capex synergies at more than HUF150bn.

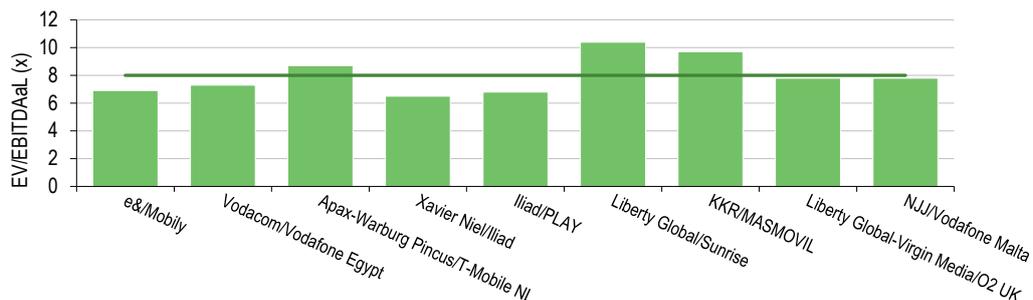
If we reduce the headline enterprise value by the net present value of the synergies, the resultant FY22 EV/Adj. EBITDA multiple falls to 6.1x post-synergies, or 2.0x EV/sales. This compares to historic trading multiples across the European telecoms sector of c 1.8–2.3x EV/sales and 6–7x EV/EBITDA. Alternate valuation measures would include 7.2x EV/EBITDAaL (post-synergies) or €347 EV/RGU (pre-synergies) and €274 EV/RGU (post-synergies). This analysis assumes that 4iG will be able to deliver the full value of the envisaged HUF150bn of synergies.

It is worth noting the difference between trading and strategic acquisition multiples, with trading multiples currently depressed, reflecting the late stage of the economic cycle. Trading multiples indicate the price that a buyer and seller can agree to trade a small interest in the target company, offering no ability to control or influence the strategic direction of the business. Strategic acquisition multiples will typically be higher than trading multiples, as the buyer is prepared to pay a premium to control the asset and align it to their own strategic business plan.

From a limited analysis of comparable transactions, the multiple that 4iG is intending to pay for Vodafone Hungary does not appear to be out of line with the precedents we have identified:

- PPF/O2 CZ, June 2021 – PPF acquired the equity of O2 in the Czech Republic at a share price of CZK264 per share, equating to an LTM EV/EBITDA of 6.8x.
- Iliad/Play Communications, September 2020 – French telco, Iliad, acquired Poland's Play for €3.5bn, an EV/EBITDA multiple of 6.8x. Play was the largest mobile operator in Poland.
- United Group/Vivacom, November 2019 – United Group acquired Bulgarian telecom Vivacom for consideration of €1.2bn, which puts the EV/EBITDA transaction multiple at 6.5x.
- PPF/Telenor CEE, March 2018 – Telenor sold its assets in Central and Eastern Europe to private investment fund PPF Group for an EV of US\$3.4bn, an EV/EBITDA of 6.4x.

Exhibit 5: Multiples for select EMEA telco deals 2019-22 (average 8.0x EV/EBITDAaL)



Source: Company press releases, Edison Investment Research

Exhibit 6: Financial summary

31-December	HUF'm	2018	2019	2020	2021
INCOME STATEMENT					
		IFRS	IFRS	IFRS	IFRS
Revenue		14,007	41,129	57,300	93,653
Cost of Sales		(8,938)	(30,126)	(41,372)	(59,090)
Gross Profit		5,070	11,003	15,928	34,563
EBITDA		842	4,075	5,047	12,094
Normalised operating profit		240	3,332	4,211	7,924
Amortisation of acquired intangibles		0	0	0	0
Exceptionals		0	0	0	0
Share-based payments		0	0	0	0
Reported operating profit		240	3,332	4,211	7,924
Net Interest		(21)	(18)	(36)	814
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		219	3,314	4,175	8,737
Profit Before Tax (reported)		219	3,314	4,175	8,737
Reported tax		(117)	(488)	(736)	(1,576)
Profit After Tax (norm)		102	2,827	3,439	7,161
Profit After Tax (reported)		102	2,827	3,439	7,161
Minority interests		0	66	(46)	(203)
Discontinued operations		0	0	0	0
Net income (normalised)		102	2,893	3,393	6,958
Net income (reported)		102	2,893	3,393	6,958
Basic average number of shares outstanding (m)		91.6	91.7	91.3	96.0
EPS - basic normalised (HUF)		1.11	30.82	37.68	74.62
EPS - diluted normalised (HUF)		1.08	30.07	36.58	73.52
EPS - basic reported (HUF)		1.11	30.82	37.68	74.62
Dividend (HUF)		0.00	22.00	22.49	29.00
Revenue growth (%)		#REF!	#REF!	#REF!	#REF!
Gross Margin (%)		36.2	26.8	27.8	36.9
EBITDA Margin (%)		6.0	9.9	8.8	12.9
Normalised Operating Margin		1.7	8.1	7.3	8.5
BALANCE SHEET					
Fixed Assets		1,571	1,948	3,989	183,505
Intangible Assets		1,221	890	2,043	124,728
Tangible Assets		140	322	777	39,613
Lease rights		0	636	966	17,837
Investments & other		210	101	203	1,325
Current Assets		6,824	22,161	33,874	316,432
Stocks		242	523	3,360	2,943
Debtors		4,306	12,892	17,494	35,926
Cash & cash equivalents		176	6,238	7,205	266,547
Other		2,101	2,508	5,815	11,015
Current Liabilities		(5,657)	(18,225)	(29,117)	(58,628)
Creditors		(3,894)	(16,361)	(25,628)	(55,044)
Tax and social security		0	0	0	0
Short term borrowings		(1,758)	(1,500)	(3,019)	(0)
Other (including finance lease liabilities)		(5)	(364)	(470)	(3,584)
Long Term Liabilities		(18)	(392)	(1,067)	(423,186)
Long term borrowings		0	0	0	(407,739)
Other long term liabilities		(18)	(392)	(1,067)	(15,446)
Net Assets		2,720	5,493	7,679	18,123
Minority interests		0	64	(376)	(1,641)
Shareholders' equity		2,720	5,556	7,303	16,482
CASH FLOW					
Op Cash Flow before WC and tax		842	4,075	5,047	12,094
Working capital		(1,369)	3,587	(797)	6,729
Exceptional & other		(26)	(5)	91	2,650
Tax		(117)	(415)	(773)	(1,427)
Net operating cash flow		(671)	7,243	3,568	20,046
Capex		(120)	(1,471)	(1,230)	(9,850)
Acquisitions/disposals		0	3	(383)	(167,182)
Net interest		(11)	(13)	(42)	(2,110)
Equity financing		0	185	(495)	(243)
Change in finance lease		9	(356)	28	(1,078)
Dividends		0	0	(2,001)	(2,212)
Other		(3)	36	(858)	(70)
Net Cash Flow		(795)	5,626	(1,413)	(162,698)
Opening net debt/(cash)		792	1,587	(4,039)	(2,741)
FX		0	0	30	8
Other non-cash movements		0	0	85	(273)
Closing net debt/(cash)		1,587	(4,039)	(2,741)	160,222

Source: 4iG accounts, Edison Investment Research

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