Investment Presentation

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CFA Institute Research Challenge
**Sector:** Telecommunication Services  
**Market Cap:** RON 3.645 bn  

**SELL**  
52 weeks high: RON 43.60  
52 weeks low: RON 30.30

**16 Feb 2018 price**  
RON 36.45

**Target Price**  
RON 30.20

Source: Bucharest Stock Exchange website

**DIKI**

Source: Team Analysis
Unsustainable low prices strategy
Deficient corporate governance
Price sensitive customer base
Increasing cost of debt
Over the top players take over
Operators become just a data pipe
Interest rates expected to spike up
Low investor confidence

SELL
On 16 May 2017
DIGI went public on BSE
23,918,519 share
RON 40 per share

On 16 February 2017
RON 36.45 per share

Downside of 8.87% since IPO
**Business Description**

1. **Cable TV**
2. **DTH**
3. **Fixed Internet**
4. **Mobile Telephony**
5. **Fixed Line Telephony**

**Revenue split by Country**
- **Romania**: 73%
- **Spain and Italy**: 16%
- **Hungary**: 11%

**Revenue split by Product**
- **Mobile telecommunications services**: 25%
- **Fixed Internet and Data**: 24%
- **Cable TV**: 26%
- **DTH**: 8%
- **Fixed-line telephony**: 4%
- **Other Revenues**: 13%

Source: DIGI's investors presentation
Shareholder Structure

**DIGI**
- **Class B**: 34%
- **Class A**: 66%

**RCS Management**
- 62%

**Retail Shareholders**
- 28%

**Institutional Shareholders**
- 6%

**Zoltan Teszari**
- Ultimate shareholder with 56.93% control of the company
- 87% ownership

*The remaining 2% from Class A shares represents treasury shares.*
Corporate Governance Appraisal

Overall Score
6/14
underperformance

1/5
• Only 1/3 of the Board of Directors are independent

1/2
• The major shareholder has 91% of the total company's voting power

2/3
• The Executive Director of RCS&RDS has been accused of bribery and money laundering

2/4
• The Group has not accounted for any provision for lawsuits

Source: Team Analysis
Industry Trends

Towards satisfying data usage demand

Becoming data pipe for transferring media

Need to satisfy network quality demand

Cost efficiency for clients
Market share for Co.
Survey

Total number of respondents: 506
Average age: 29.7 years
Location: Romania

Connection Problems
- Digi: 20.5%
- Average: 62.9%

Good Price
- Digi: 28.7%
- Average: 91.4%

Loyalty Offers
- Digi: 2.83
- Average: 3.14

Coverage Level
- Digi: 3.28
- Average: 3.91

Source: Team Survey
Romanian Segment Outlook

Fixed Broadband Market Share
- DIGI: 49%
- T: 27%
- upc: 12%
- OTHERS: 12%

TV Market Share
- DIGI: 49%
- T: 20%
- upc: 18%
- OTHERS: 13%

Source: Team Analysis based on DIGI's financials

Industry Overview
Competitive Positioning
Romanian Mobile Network Position

Mobile Services Market Share

- **Digi**: 21%
- **Orange**: 31%
- **Vodafone**: 36%
- **Telekom**: 12%

Source: Team Analysis based on DIGI's financials

Telecom operators: Price vs. Coverage

- **Digi**
- **Orange**
- **Vodafone**
- **Telekom**

Coverage Quality vs. Price (1 highest, 5 lowest)

Source: Team Survey

Industry Overview

Competitive Positioning
Hungarian Segment Outlook

Fixed Broadband Market Share

TV Market Share

Source: Team Analysis based on DIGI's financials
SELL 17.15% Downside

Valuation Summary

FCFF
RON 30.71 per share

TARGET PRICE
RON 30.20

30%

70%

SOTP
RON 29.92 per share

Investment Summary
**Intrinsic Valuation**

<table>
<thead>
<tr>
<th>FCFF</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Terminal Value</td>
<td>1206.09</td>
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<tr>
<td>Enterprise Value</td>
<td>1417.84</td>
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<tr>
<td>Net Debt</td>
<td>759.77</td>
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<tr>
<td>Fair value/share</td>
<td>6.53</td>
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<tr>
<td>Discount</td>
<td>15%</td>
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<tr>
<td>Fair value/share</td>
<td>25.86</td>
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<tr>
<td>12m TP</td>
<td>30.71</td>
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<tr>
<td>Closing (16 Feb 2018)</td>
<td>36.45</td>
</tr>
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**Downside** -15.74%

Source: Team Analysis based on DIGI’s financials and team’s forecast from 2017 onwards

**WACC** 8.13%
Computed Beta 1.87
Cost of Equity 18.75%
Cost of Debt 6.52%
Sum-of-the-Parts Based on Multiples

SOTP on EV/SALES

<table>
<thead>
<tr>
<th>Division</th>
<th>Multiple</th>
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<tbody>
<tr>
<td>Entertainment</td>
<td>1.71x</td>
</tr>
<tr>
<td>Cable</td>
<td>1.48x</td>
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<tr>
<td>Telecom</td>
<td>1.42x</td>
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<tr>
<td>EV</td>
<td>1405.24</td>
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<tr>
<td>12m TP</td>
<td>29.98</td>
</tr>
</tbody>
</table>

Downside -17.76%

85% CEE
29.98 RON/share
15% WE

Source: Team Analysis and Bloomberg data
Monte Carlo

Sensitivity Analysis - SOTP
- Minor Share Holders
- Exchange Rate
- Cost of Equity
- Telecom Sector
- Net Debt
- Cable & Satellite Sector
- Entertainment Sector

Sensitivity Analysis - FCFF
- GDP IT
- Minor Share Holders
- GDP ES
- GDP HU
- GDP RO
- Net Debt

Source: Team Analysis
Growth Rate Computation

- Revenue Generating Unit
- RGU & ARPU
- GDP
- Industry evolution
- Revenue Growth Rates
- Average Revenue Per Unit

Financial Analysis

Revenue Generating Unit

Average Revenue Per Unit
Forecasted Revenue Growth Rates (RO)

Source: Team Estimations

Financial Analysis
Forecasted Revenue Growth Rates (HU)

Source: Team Estimations
**Expenses Analysis**

**OPEX**
- Telephony expenses: 19%
- Salaries and related taxes: 18%
- Depreciation: 12%
- Programming expenses: 11%
- Rentals: 7%
- Utilities: 4%
- Pension fund contributions: 5%
- Cost of goods sold: 5%
- Other expenses: 19%

**CAPEX and EBIDTA Evolution**

Source: Team Analysis based on DIGI's financials
Debt Analysis

Capital Structure

- Equity: 8%
- Debt: 92%

Source: Team Analysis based on DIGI’s financials

Loans Maturity

Consolidated Debt Evolution

Financial Analysis
Risk Assessment

- Reputational
- Fiscal
- Business
- Financial
- Operational

Source: Team Analysis
The government increases taxation as an effect to high public deficit.

In 2017 a series of criminal offenses have been indicted to a senior manager.

In 2015, DIGI lost their license to broadcast UEFA Champions League to Telekom.

National Telecom Regulator might target DIGI for dominant position on the market.

Risk Contributors

ANCOM

Government

Content Providers

Senior management

Investment Risks
Increasing cost of debt
Low investor confidence
Price sensitive customer base
Over the top players take over

SELL

16 Feb 2018 price
RON 36.45 per share
TARGET PRICE
RON 30.20 per share

17.15% Downside

FCFF
SOTP

30%
70%