

28 July 2015

O2 Czech Republic – 2Q15 Results Preview

Will Post Spin-off Earnings Split Warrant Recent Rally?

Telecoms	CURRENT PRICE	143 CZK	-
CZECH REPUBLIC	TARGET PRICE	85 CZK	CURRENT RATING

Bloomberg	TELEC CP
Reuters	SPTT PR
www.o2.cz	
Market Cap	CZK 45,217m
Shares outst.	310.2m
Free float	15 %
Next corporate event	
2Q15 Financial results: July 29, 2015	
Performance	1M 3M 12M
Absolute	+44% +122%-
Relative	+34% +123%-

2Q15 Results Preview

The company will release its 2Q15 results tomorrow (Wednesday, July 29) at 7 am CET. **It will be for the first time the co. will report its results excluding the spin-off part of the business (CETIN).** In addition to 2Q15 result itself, the release should be accompanied with pro-forma financial statements for prior quarters.

Due to lack of past (pro-forma) financial data for the isolated O2 CR it is difficult to forecast the quarterly numbers in more detail. We thus provide a very rough estimate of 2Q15 figs based on the co.'s latest guidance for earnings split post spin-off. **Thus we assume O2 CR will generate 50% of the former co.'s EBITDA with a 25% EBITDA margin. Also, roughly 80% of net profits is expected to remain in O2 CR. As such, we estimate revenues to reach 9.0-9.5bn CZK, EBITDA of 2.3-2.5bn CZK and Net Income of 1.1-1.2bn CZK.**

Our view:

Importantly, the results will show the post spin-off earnings split. Note, in our approach to O2 valuation, we applied EV/EBITDA multiple of 3.5x on the co.' pro forma EBITDA in 2014 to arrive at TP of CZK 85. Multiple used in the analysis reflected a discount to its CE3 peers (currently at 4.6x) because of the increased riskiness of O2 business model (without the infrastructure), overall lower attractiveness and minority risk such as the dividend uncertainty. **However, recently the stock jumped to over CZK140/share, thereby boosting the co.'s EV/EBITDA multiple to 5.5x, significantly above the peer median.**

Multiple analysis suggests O2 CR shares are expensive at current levels. However, one may look at the co.'s dividend yield. **We think the co. has the earnings and cash potential to pay a dividend of at least CZK 10 per share. This would imply dividend yield of at least 7.0%, still attractive relative to CE3 median of 4.6%.** The question is whether PPF will be willing to share the co.'s profits.

As we neither expect any larger change to earlier guidance of the earnings split (which could partly warrant current valuation) nor any clarity on future dividends, we consider O2 shares as expensive at current levels.

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The company disclosures can be consulted on our website <http://www.patria.cz/stocks/research/recommendation.html>

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