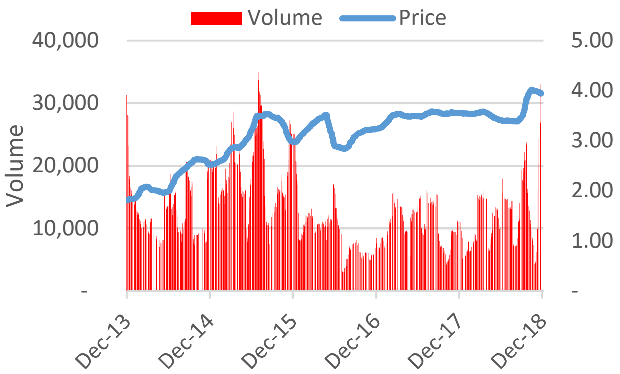
GO p.l.c.

Stock Rating — Buy
Price target (1Yr) — €4.70

Country	Malta
Industry	Telecommunications & ICT
Ticker Symbol	GO
Price (as at 08/01/2019)	€4.04
Price Target (1 Year)	€4.70
Upside / Downside to PT	16.3%
Market Cap	€409.29 million
Shares Outstanding	101.31 million
Free Float	34.6%
Net Dividend Yield *	3.2%
Current P/E *	22.3x
Forward P/E **	21.8x

* Based on the LTM results for June 2018
** CC estimates

Price and Volume Movement	Exchange: Malta Stock Exchange ("MSE")
5 year Range (20 day moving average)	€1.81 - €4.10



Source: Bloomberg

Executive Summary:

"We are upgrading our investment stance to a Buy recommendation on GO, with a 12-month price target of €4.70. GO is a defensive stock, given that it operates in the telecommunications industry, which is relatively less volatile than other industries. Moreover, the business model is not expected to experience shocks in the foreseeable future and is anticipated to continue on its positive trend. GO is currently trading in-line with its 5-year average of 21.4x, despite the expected special dividend following the 49% sale of BMIT and the potential growth of its investment in Cyprus."

Company Overview:

GO plc ("GO" or "the Company") is a converged and integrated telecommunications group and the first quadruple play operator in the Maltese market. The Company offers fixed-line and mobile telephony, internet and TV services for consumers and business clients as well as data centre facilities and ICT services to business clients provided by its subsidiary BMIT Technologies plc ("BMIT").

GO is 65.4% owned by Tunisie Telecom, who bought the shares from Emirates International Telecommunications (Malta) Limited during 2016. The Company also holds an investment in Forthnet S.A (Forthnet), provider of fixed line telephony services, broadband services and satellite pay TV services in Greece. Following GO's decision not to take part in a convertible bond loan issued by Forthnet in end of 2017, the previously held investment of 22.6% was diluted to 15.2%. The investment in Forthnet is recognised at a nil carrying amount.

Company Update:

Following an extraordinary general meeting of GO carried out on 3 December 2018, the board of directors of GO is authorised to dispose a maximum of 49% of the ordinary issued share capital of BMIT for a consideration of up to €49 million. The proposed initial public offering (IPO) of the fully owned subsidiary shall materialise upon the approval from the listing authority, which is forecasted to be in January 2019 and where at least a minimum of 25% of BMIT shares are taken up at the IPO. Post the IPO GO will still retain at least 51% of BMIT and thus will be consolidated at group level. Albeit, any price movements in BMIT's share price will not have an impact GO's financial performance.

Dividends – The board of director of GO has resolved to determine the extent of dividend distribution for 2018 on the basis of the full year results for 2018 and as such no dividends were declared for the interim results of June 2018. It is worth

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mentioning that the main objective of GO's sale of BMIT as indicated by management is to deliver shareholders' returns via dividends.

SWOT Analysis

Strengths

- ✓ Largest communications operator in Malta with over 500k customer connections and 75,000 households reached by the GO Fibre-to-the-Home ("FTTH"). With GO being the only operator in Malta rolling out the FTTH.
- ✓ One-stop-shop for business users and corporations by combining fixed, mobile telephony and internet services with data centre and ICT services.
- ✓ A history of increasing dividends distributions during the last four years.
- ✓ GO launched 4.5G technology, following the awarding of the 800 MHz spectrum by the Malta Communications Authority.

Weaknesses

- × Highly capital-intensive industry but limited market size, especially in Malta.
- × Retail revenue from legacy fixed voice service and TV service continue to decline.
- × Despite the Company's effort to increase the return from Cyprus, revenue from the Maltese market represent around 80% of total revenue.

Opportunities

- Growing use of mobile devices and therefore of mobile telephony services and broadband.
- Upsurge in the average revenue per user for fixed broadband and mobile telephony as issued by the MCA Market Trends Q1 2014 to Q3 2018.
- Increasing population and GDP in Malta.
- GO will potentially be in receipt of €49 million in cash, provided that the IPO of BMIT is successful and that the maximum number of shares of 49% are taken up.
- The Cypriot economy has been expanding rapidly, experiencing a growth of 3.9% in 2017. The telecommunications sector is continuously growing and GO can be positively impacted through its investment in Cablenet.

Threats

- ! Increased competition in Malta and Cyprus.
- ! Stricter regulatory requirements and constraints.
- ! GO is a major supplier of technology and services to operators working out of Malta (e.g. i-gaming companies). Thus, any negative impact on the ability of the industry to retain its significant presence in Malta would adversely affect the Company's profitability.

Investment Stance

We are upgrading our investment stance to a Buy recommendation on GO, with a 12-month price target of €4.70. GO is a defensive stock, given that it operates in the telecommunications industry, which is relatively less volatile than other industries. Moreover, the business model is not expected to experience shocks in the foreseeable future and is anticipated to continue on its positive trend. GO is currently trading in-line with its 5-year average of 21.4x, despite the expected special dividend following the 49% sale of BMIT and the potential growth of its investment in Cyprus. In spite of the challenging market in which the Company operates, GO was able to increase its revenue in the LTM results for June 2018. The Company, through its 51% shareholding in Cablenet Communication Systems Limited ("Cablenet"), experienced a growth of 7% in its Cyprus customer base, now serving over 62,000 subscribers. Together with an increase in GO's broadband base as the Company continues its investment in the Fibre-to-the-Home ("FTTH") rollout, which now exceeds 75,000 homes and GO being the Malta's only fibre connected network with 4.5G nationwide coverage.

Moving forward we believe that the Company will experience an increase in its EBITDA, driven by a growth in total revenue, with the most significant growth expected from BMIT, followed by the growth in Cyprus. We expect the EBITDA margin to remain stable for the foreseeable future. The Company's operations in Cyprus carried out by Cablenet experienced a growth of 5.8% in revenue for the interim results of June 2018 when compared with the same period last year; however, the profitability for the relative period has decreased, with management contributing this to an aggressive advertising campaign performed to address the competition in the Cypriot telecommunications market. We expect Cablenet's revenues to continue to increase, sustained by the growth of the Cypriot economy, the investments made by the Company in addition to the entrance into the mobile telephony market via a Mobile Virtual Network Operator agreement with CYTA Mobile Network, which allowed the company to offer a complete telecommunication package to its customers.

GO is currently trading at 22.3x 2018 LTM earnings and at a forecasted 21.8x earnings for 2018F, which is in-line with its 5-year average of 21.4x. In the short-term we expect GO to be trading at a higher price to earnings ratio given the potential upside in GO's major subsidiaries being Cablenet and BMIT.

Valuation

Our one-year price target is €4.70. The price target is calculated using a Free Cash Flow to the Firm model with a weighted average cost of capital (WACC) of 7.2%. This translates to a forward PE of 21.8x earnings. The cost of equity is based on the local equity risk premium and the Company benefits from a reasonably low WACC due to the currently employed leverage (Debt / Equity) of 63.8% as at June 2018. This is in-line with the European telecoms industry.

€'Millions unless otherwise indicated	FY 2016	FY 2017	2018 LTM	2018F	2019P	2020P
	€	€	€	€	€	€
Revenue	156.97	166.30	169.61	173.27	179.19	185.06
Cost of sales	(94.50)	(96.56)	(97.40)	(100.46)	(103.89)	(107.29)
Administrative Expenses (excl. depreciation & amortisation)	(2.18)	(5.68)	(7.88)	(5.98)	(6.09)	(7.08)
Other income	1.34	1.51	1.52	1.46	1.46	1.46
EBITDA	61.63	65.57	65.85	68.29	70.67	72.15
Depreciation & Amortisation	(35.36)	(36.05)	(34.91)	(36.15)	(37.67)	(39.90)
EBIT	26.275	29.527	30.942	32.14	33.00	32.25
Finance income	0.82	0.33	0.33	0.33	0.33	0.65
Finance Costs	(3.36)	(2.18)	(1.81)	(1.81)	(1.81)	(1.81)
Adjustment arising on fair valuation of property	(0.23)	0.21	0.21	-	-	-
Losses attributable to investment in Joint Ventures	(1.50)	(0.01)	(0.01)	-	-	-
Gain arising on fair value of acquisition of subsidiary	6.08	-	-	-	-	-
Profit Before Tax	28.096	27.869	29.652	30.66	31.51	31.09
Income tax expense	(7.80)	(9.87)	(10.15)	(10.73)	(11.03)	(10.88)
Net Profit available to Shareholders	20.292	18.002	19.503	19.93	20.48	20.21
Minority interests	1.85	1.31	1.12	1.15	1.18	1.16
Net Profit available to Company shareholders	18.44	16.69	18.38	18.78	19.30	19.04
Earnings Per Share – in (€)	0.182	0.165	0.181	0.185	0.191	0.188
Normalised Earnings Per Share – in (€)[1]	0.139	0.163	0.179	0.185	0.191	0.188

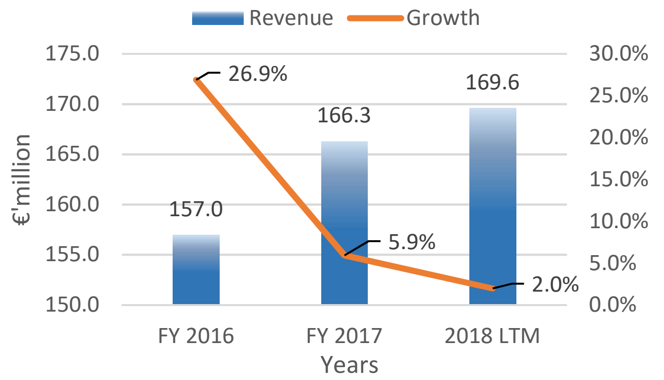
Source: Audited Financial Statements and CC Estimates

[1] Excluding earnings/losses contributing to adjustments on fair value of property and fair value of acquisition of subsidiary, and losses attributable to investment in joint ventures

Investment Thesis Variables

- **Revenue**

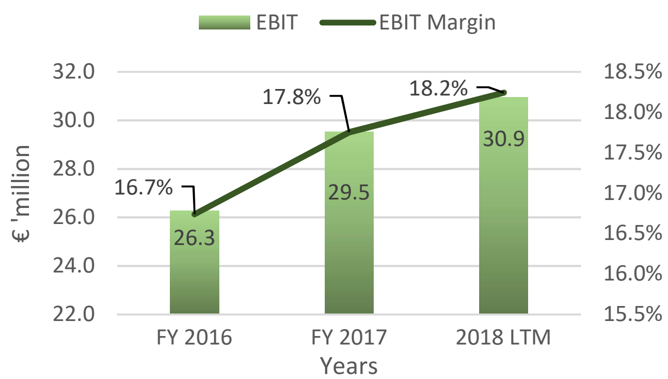
We expect revenue to increase by 4.2% or to €173.3 million in 2018 from €166.3 million in 2017. This growth is in-line with the interim results for June 2018, whereby revenue increased by 4.1% when compared to the same period of previous year. The growth rate in revenue is expected to taper down to around 3.4% in both projected years 2019 and 2020. Revenue mainly comprises of three components being the telecommunications services in Malta, the telecommunications services in Cyprus and the data centre services performed by BMIT. The telecommunications services in Malta are the main driver of GO's revenue (2017: representing 70% of total revenue) and we expect this sector to increase by 2.8% for 2018F. Through its investment in Cablenet, GO derives revenue from telecommunications services in Cyprus (2017: representing 19% of total revenue) and we expect this sector to increase by 5.8% for 2018F. The datacentre services carried out by BMIT is expected to grow by 9.9% for 2018F, which is in line with management's projections in preparation for BMIT's upcoming IPO.



Source: Financial Statements / CC Workings

As shown in the graphical presentation above GO has continuously increased its revenue from 2016 to 2018 LTM. It is worthy to note that the 26.9% growth experienced in 2016 is not comparable due to significant changes in GO's group structure namely being the spin-off of Malta Properties Company (MPC) at the end of 2015, and the 51% acquisition of Cablenet and Kinetix IT Solutions Ltd at the beginning of 2016.

- **EBIT** - The EBIT has increased from €26.3 million in 2016 to €29.5 million in 2017. The EBIT margin has also improved from 16.7% in 2016 to 17.8% in 2017. LTM results for 2018 substantiate our projections with both the EBIT and the EBIT margin experiencing an increase when compared to 2017. We are forecasting the EBIT to increase to €32.1 million in 2018 from €30.9 million in 2018 LTM and the EBIT margin to increase to 18.6% from 18.2% in 2018 LTM results. For projected years, 2019 and 2020 the EBIT is expected to be slightly affected by the increase in the depreciation expense in view off the Company's plans to accelerate the FTTH rollout and BMIT's new datacentre in Zejtun with an investment of €10 million, which is planned to be finalised in the first quarter of 2020.

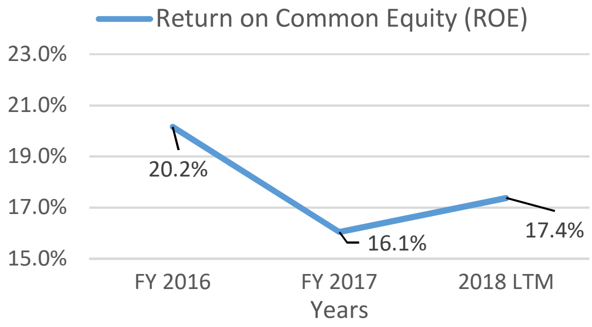


Source: Financial Statements / CC Workings

- **Depreciation and Amortisation -** The depreciation and amortisation expense stood at €35.4 million in 2016 and €36.0 million in 2017. We are forecasting the depreciation to be of €36.1 million in 2018. In projected years 2019 and 2020, our assumptions account for the Company's plans to accelerate the FTTH rollout and thus the capital expenditure of the Plant & Equipment asset category was estimated to be of €35 million less €12 million representing assets disposals. In 2020, our model also takes into account an additional €10 million representing BMIT's new datacentre in Zejtun.

- **Finance Costs** - Finance costs in 2017 stood at €2.2 million, which have decreased when compared to 2016 where finance costs stood at €3.4 million. For the LTM results as at June 2018, finance expenses continued to decrease and stood at €1.8 million. We believe that the Company will maintain its level of debt in the foreseeable future and as such, our valuation assumes a constant finance cost expense of €1.8 million.

- **Net Income and Earnings per share (EPS)** - We are forecasting net income to increase to €19.9 million in 2018 compared to €18.0 million in 2017. This translates to an EPS of €0.185 for forecast 2018, compared to an EPS of €0.165 in 2017 and a normalised EPS of €0.163 if adjusted for fair value adjustments and losses from joint ventures. Our 2018 forecast is substantiated by the LTM results for June 2018 where net income was of €19.5 million, with an EPS of €0.181 and a normalised EPS of €0.179. The Return on Common Equity (ROE) has continuously improved from 2016 to date, provided that the 20.2% ROE of 2016 is adjusted for a one-time fair value gain arising from previous held equity interest upon acquisition of subsidiary resulting in an adjusted ROE of 14.1%. The ROE for the LTM results as at June 2018 demonstrate an improved performance with a return of 17.4% when compared to the return of 2017 of 16.1%.



Source: Financial Statements / CC Workings

- **Dividends** – The Company has a history of increasing its dividend in the last four years, with the latest dividend paid for 2017 resulting in a dividend payout ratio of 78.9% and a net dividend per share of €0.13. As intimated above GO is in the process of disposing up to 49% of its holding in BMIT for a maximum consideration of €48.9 million. As indicated by management the main purpose for such sale is to boost shareholders returns via dividend payments, which we are assuming to be issued as a one-off bonus dividend in 2019. Moving forward, we believe that the Company can maintain paying the same level of dividends as that of 2017 and in fact our valuation account for a constant dividend payout ratio of 80%. The current net dividend yield stands at 3.2% and the forward net dividend yield is estimated at 3.7%.

Key Financial Indicators

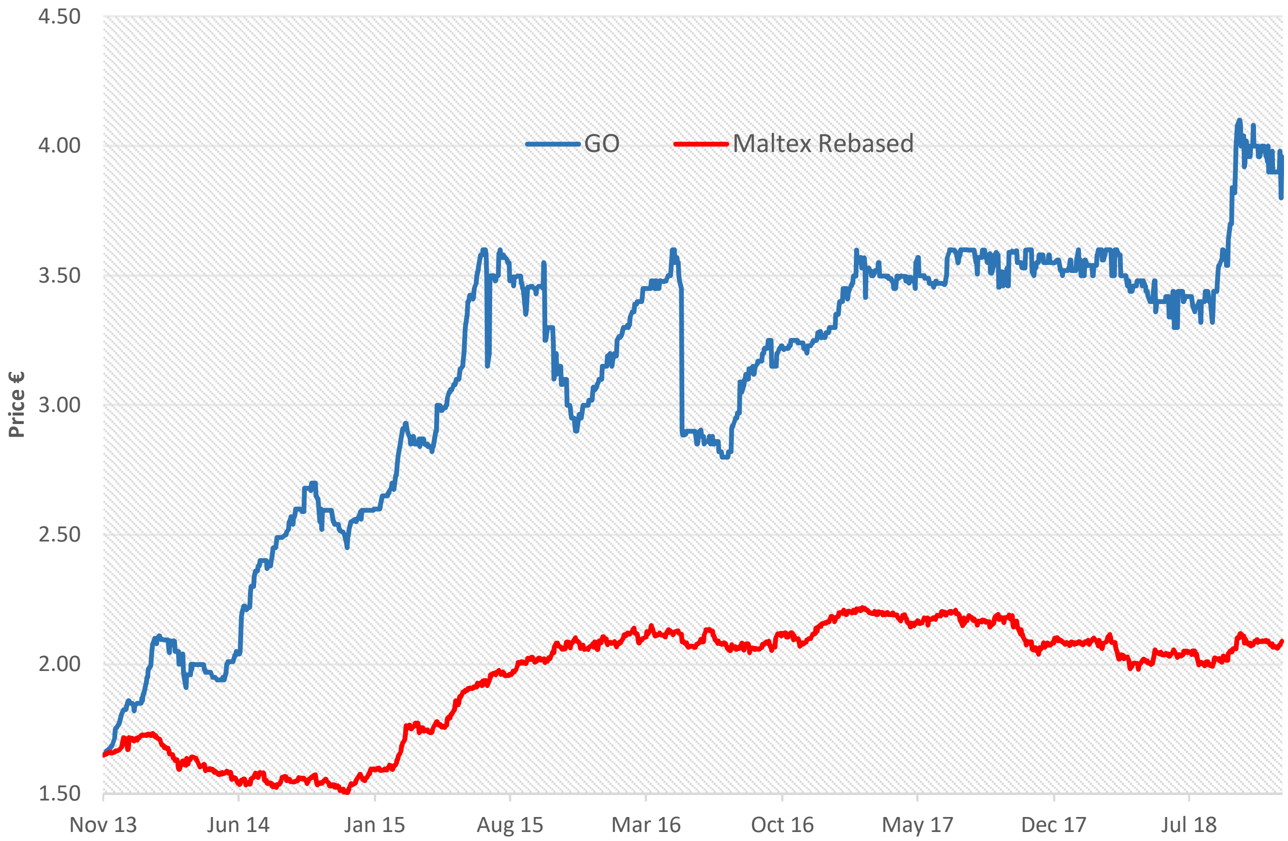
FY 2015 is not comparable due to significant changes in GO's group structure as further described above.

€'Millions unless otherwise indicated	FY 2015	FY 2016	FY 2017	2018 LTM
Income Statement				
Revenue	123.70	156.97	166.30	169.61
Growth in Revenue (YoY)	1.18%	26.90%	5.94%	1.99%
EBITDA	51.63	61.63	65.57	65.85
EBITDA Margin (EBITDA / Revenue)	41.74%	39.26%	39.43%	38.83%
Operating Profit (EBIT)	27.84	26.28	29.53	30.94
Operating (EBIT) Margin (EBIT / Revenue)	22.50%	16.74%	17.76%	18.24%
Net Income	26.41	20.29	18.00	19.50
Net Margin (Net Income / Revenue)	21.35%	12.93%	10.82%	11.50%
Earnings per Share (EPS)	0.26	0.18	0.16	0.18
Growth in EPS (YoY)	228.74%	-30.17%	-9.49%	-0.35%
Dividend per Share (Net Dividends / Shares Outstanding)	0.10	0.11	0.13	0.13
Growth in Dividends (YoY)	42.86%	10.00%	18.18%	18.18%
Sustainable Growth Rate in Dividends	16.65%	7.98%	3.39%	4.93%
Dividends Yield as at Year-end (Dividend per Share / Share Price)	3.31%	3.36%	3.66%	3.28%
Balance Sheet				
Inventory	9.72	8.03	8.34	8.77
Cash and Cash Equivalents	2.70	9.73	13.72	8.15
Current Assets	44.76	49.87	55.99	52.51
Non-Current Assets	162.82	199.88	195.83	191.57
Total Assets	207.58	249.75	251.82	244.08
Current Liabilities	64.99	78.08	83.77	84.68
Non-Current Liabilities	50.49	62.47	52.94	50.08
Total Debt	49.85	73.83	69.44	69.70
Total Equity	92.10	109.20	115.11	109.31
Net Debt	47.16	64.10	55.72	61.55
Shares Outstanding	101.31	101.31	101.31	101.31
Cash flow				
Cash Flow from Operating Activities (CFO)	35.14	60.96	54.90	52.31
Capex	(25.90)	(45.57)	(33.93)	(33.97)
Free Cash Flow (FCF)	9.24	15.38	20.97	18.34
Cash Flow from Investing Activities	(33.40)	(35.46)	(33.93)	(35.84)
Cash Flow from Financing Activities	(16.68)	(19.26)	(17.11)	(27.40)
Ratios: Profitability				
Return on Common Equity (Net Income / Common Equity)	27.02%	20.16%	16.05%	17.38%
Return on Assets (Net Income / Total Assets)	12.72%	8.12%	7.15%	7.99%
Solvency				
Gearing Ratio Level 1 (Net Debt / Total Equity)	51.20%	58.70%	48.41%	56.31%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	55.63%	56.28%	54.29%	55.21%
Net Debt / EBITDA	0.91x	1.04x	0.85x	0.93x
Current Ratio (Current Assets / Current Liabilities)	0.69x	0.64x	0.67x	0.62x
Quick Ratio (Acid Test Ratio)	0.54x	0.54x	0.57x	0.52x
Interest Coverage Ratio (EBITDA)	29.07x	17.44x	30.08x	31.27x
Cash from Operations / EBIT	1.26x	2.32x	1.86x	1.69x

Source: Audited Financial Statements and Interim Results

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
GO MV	01.12.2017	€3.55	€3.58	Simon Psaila & Elisabetta Gaudiano	Hold
GO MV	25.07.2018	€3.42	€3.52	Simon Psaila & Elisabetta Gaudiano	Hold
GO MV	09.01.2019	€4.04	€4.70	Simon Psaila & Rowen Bonello	Buy



Source: Bloomberg

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Company/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Company's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Company/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at statement of financial position date.
Growth in EPS (YoY)	This represents the growth in Earnings per Share (EPS) when compared with previous financial year.
Dividends Ratios	
Net Dividends	Net dividends represent the net amount of dividends in respect of a Group's/Company's fiscal year.
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at statement of financial position date.
Growth in Dividends (YoY)	This represents the growth in dividends when compared with previous financial year.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Company/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Company/Company.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Company/Company.

Capex	Represents the capital expenditure incurred by the Company/Company in a financial year.
Free Cash Flows (FCF)	The amount of cash the Company/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Assets	What the Company/Company owns which can de further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Company/Company owes which can de further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Shares Outstanding	Outstanding shares refer to the Company/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio Gearing Ratio Level 1 Gearing Ratio Level 2	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Total Equity. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Company/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Company/Company to convert its earnings into cash.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

Disclaimer