

Update to Price Target and Investment Stance

“Telecom companies have been strategically important to keep economies and societies going during the pandemic and the ensuing lockdowns. Inevitably, the remote working proposition, in addition to the introduction of home schooling and the increased demand in entertainment streaming services, have resulted in a substantial increase in data usage on fixed networks during 2020.

Moreover, although we maintain our **Hold** recommendation on GO plc (“GO” or the “Group”), we increased our 1-year price target to €3.83, from our previous target of €3.21, primarily due to an expected improvement in performance from the Group’s subsidiaries.

Updates to the valuation model:

Revenue contribution from GO: In line with our previous coverage on GO, we reiterate our stance that growth within the local telecom sector might experience a slower pace. European peers are also experiencing a slower pace and to this extent we believe it is appropriate to maintain our nil growth rate assumption for the Group’s local telecom revenue stream (FY20: -0.9%).

Revenue contribution from Cablenet: As per discussions held with the Group’s executive management, Cablenet’s financial performance is expected to continue increasing at rates comparable to those of the prior year (FY20: +17.9%). Management further explained that such anticipated growth is mainly attributable to an overall expected increase in the number of services offered by the company as well as an increase in the number of mobile telephony subscribers.

That said, we also reiterate our view that there are already well established players within the Cypriot mobile industry. As a result, we also believe that in order for Cablenet to win over subscribers, they will need to offer more competitive packages, which in interim might result into lower revenues, in the short term.

Nonetheless, in view of Cablenet’s satisfactory financial performance during 2020, whereby total revenues surpassed IPO projections by 8.5%, we believe that Cablenet might emerge as the Group’s driver in the short-to-medium term. Thus we remain cautiously optimistic on the company. Upon taking these factors into consideration, in addition to the direction provided by management, we increased our 2021 revenue growth rate assumption on GO’s Cypriot telecom segment to 10% from our previous expectations of 8.5%.

Revenue contribution from BMIT: Additionally, BMIT’s financial forecasts are based on the assumptions issued by the company at IPO, adjusted for the latest developments; including the delay of the Zejtun data centre and the signing of new clients/partners.

Operating expenditure: Group cost of sales and administrative expenditure exclusive of depreciation and amortisation, increased by €7.3m or 6.8% over 2019. This upsurge in operating expenses is

Stock Rating

Price target (1Yr)

Country

Industry

Ticker

Price (24/03/2021)

Price Target (1-Year)

Upside to PT

12m cash div. (Forecast)

12m Total S’holder Return

Market Cap

Shares Outstanding

Free Float

Net Dividend Yield

Current P/E (FY20)

1Yr Forward P/E (FY21e)

Hold

€3.83

Malta

Telecommunications &
ICT

GO

€3.62

€3.83

5.8%

€0.10

8.6%

€366.7m

101.3m

34.6%

4.4%

27.6x

35.2x

Group overview: GO plc (“GO” or the “Group”) is a telecommunications quadruple play operator in Malta. The Group offers the four telecom services for consumers and businesses as well as data centre facilities and ICT services to business clients provided by its subsidiary BMIT. Through its majority shareholding of 62.2% in Cablenet, the Group provides triple play telecom services in Cyprus.

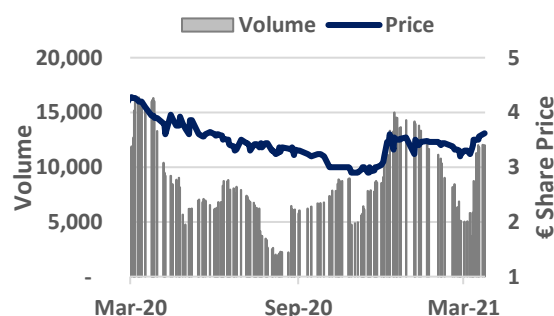
Exchange

Malta Stock Exchange

52-week range

€2.90 - €4.28

Price and Volume Movement (20 day moving average)



Source: Bloomberg

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attributable to an increase in the company's employee benefit expense mainly due to a higher uptake of voluntary retirement purposes and also due to an increase in TV content costs. We believe that the company will continue with its voluntary retirement scheme moving forward, with staff costs expected to remain in line with those incurred during 2020.

More recently, management reported that in view of the implications brought about by the pandemic on the Group, GO implemented a cost cutting exercise, which upon discussions with management, is expected to be maintained moving forward.

As a result, although we expect the Group's total operating expenditure to increase during 2021 due to the continued uptake of the voluntary retirement scheme, we expect GO's consolidated total operating expenditure as a percentage of revenue to start gradually tapering down from 2022 onwards.

Concluding remarks:

The COVID-19 pandemic triggered major changes in the use of electronic communication networks and services across the globe. More interestingly, the coronavirus pandemic has deepened the reliance on services offered by such telecom companies, whereby the security and resilience of electronic communication networks have played a key role in enabling the rapid transition of work from physical offices to digital platforms.

Notwithstanding the fact that the pandemic had no material impact on the telecom industry in general, most telecom companies', including GO, reported lower roaming fees due to travel restrictions imposed by the relevant health authorities' to contain the virus spread.

Nevertheless, management further noted that the demand for fixed telecommunication services in Malta continued to increase during the pandemic. Imperatively, in view of the fact that GO has the largest market share within the local telecom sector, with this revenue stream representing circa 62% of the Group's total revenue as at December 2020, we further solidify our view that GO's business model is defensive in nature.

Despite the current unprecedented situation, the Group was able to propose a net dividend per share of €0.16, translating into a net dividend yield of 4.4%. Although its attractiveness, it reflects a dividend pay-out which is higher than actual earnings, thus the likelihood of the Group maintaining such pay-out is questionable in the foreseeable future.

Nonetheless, provided that the current situation does not deteriorate further, we are of the opinion that GO's defensive business model and the relative stable cash flows, will enable the Group to continue distributing a respectable dividend.

In conclusion, we are cautiously constructive on GO given its strong cash position, but more importantly the plausibly potential boost which the Group can experience through Cablenet. Based on the above, we are of the opinion that at the current price level, a **Hold** recommendation on GO shares is justified."

Group Update

- **Capital expenditure update for 2020 and beyond:**

GO	BMIT	Cablenet
Continued TrueFibre rollout	Acquisition of Handaq property (€4m)	Continued expansion of the Fiber Optic Network
Investment in a third submarine cable (expected completion date: early 2022)	Acquisition of 15% of EBO Ltd	Successful acquisition of 5G spectrum (January 21)
		CYTA RAN Sharing discussions in very advanced stage

Source: Latest available audited financial statements

Valuation

Our 1-year price target of €3.83 is calculated using a Free Cash Flow to the Firm Model ("FCFF") and a weighted average cost of capital (WACC) of 7.5%. We also corroborated our price target with an EV/ EBITDA multiple approach.

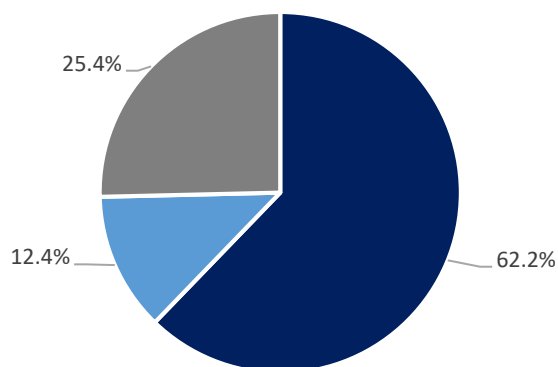
€'millions unless otherwise indicated	FY17	FY18	FY19	FY20	FY21F	FY22P
Revenue	161.1	171.8	177.8	185.2	190.6	195.2
Cost of sales	(57.5)	(60.5)	(60.8)	(67.7)	(69.1)	(70.8)
Gross Profit	103.6	111.3	117.0	117.5	121.5	124.4
Administrative expenses	(39.5)	(43.6)	(46.2)	(46.6)	(48.3)	(48.0)
Other income	1.5	1.8	2.4	1.3	1.3	1.3
EBITDA	65.6	69.5	73.2	72.1	74.5	77.7
Depreciation & Amortisation	(36.0)	(36.4)	(47.3)	(50.8)	(51.2)	(53.2)
EBIT	29.5	33.1	25.8	21.3	23.4	24.5
Finance income	0.3	0.3	0.3	0.4	0.4	0.4
Finance Costs	(2.2)	(1.8)	(3.4)	(3.9)	(4.5)	(4.4)
Other gains/(losses)	0.2	-	-	-	-	-
Profit Before Tax	27.9	31.7	22.8	17.8	19.2	20.5
Income tax expense	(9.9)	(11.2)	(9.8)	(6.9)	(6.7)	(7.2)
Net Profit After Tax	18.0	20.4	13.0	11.0	12.5	13.3

Ratio Analysis:	FY17	FY18	FY19	FY20	FY21F	FY22P
Revenue Growth (YoY)	2.6%	6.7%	3.5%	4.2%	2.9%	2.4%
Gross Profit Margin	64.3%	64.8%	65.8%	63.5%	63.8%	63.7%
EBITDA Margin	40.7%	40.4%	41.2%	39.0%	39.1%	39.8%
EBIT Margin	18.3%	19.3%	14.5%	11.5%	12.3%	12.6%
Net Margin (Normalised Profit)	11.1%	11.9%	9.0%	7.6%	6.6%	6.8%
Shares Outstanding (million)	101.3	101.3	101.3	101.3	101.3	101.3
Earnings per share (€)	0.165	0.187	0.115	0.131	0.103	0.107
P/E Ratio (normalised)	n/a	n/a	n/a	27.6x	35.2x	33.9x
Earnings yield (normalised)	n/a	n/a	n/a	3.6%	2.8%	2.9%
Dividend per Share (€)	0.13	0.14	0.10	0.16	0.10	0.10
Dividend pay-out ratio	78.9%	74.8%	86.6%	121.9%	97.3%	93.8%
Dividend Yield	n/a	n/a	n/a	4.4%	2.8%	2.8%

Source: GO's Financial Statements and CC Workings

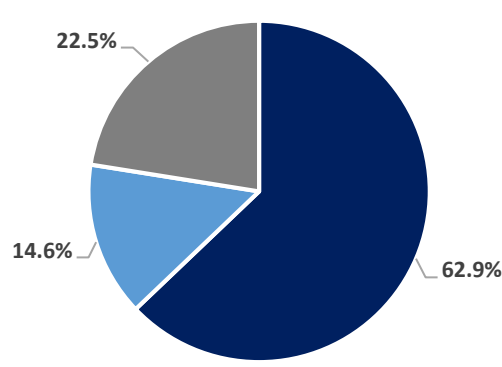
Segmental Analysis

Revenue by Segment (FY20)



- Malta Telecommunications (GO)
- Data Centre (BMIT)
- Cyprus Telecommunications (Cablenet)

Segmental Adjusted EBITDA (FY20)



- Malta Telecommunications (GO)
- Data Centre (BMIT)
- Cyprus Telecommunications (Cablenet)

Source: GO's Financial Statements and CC workings

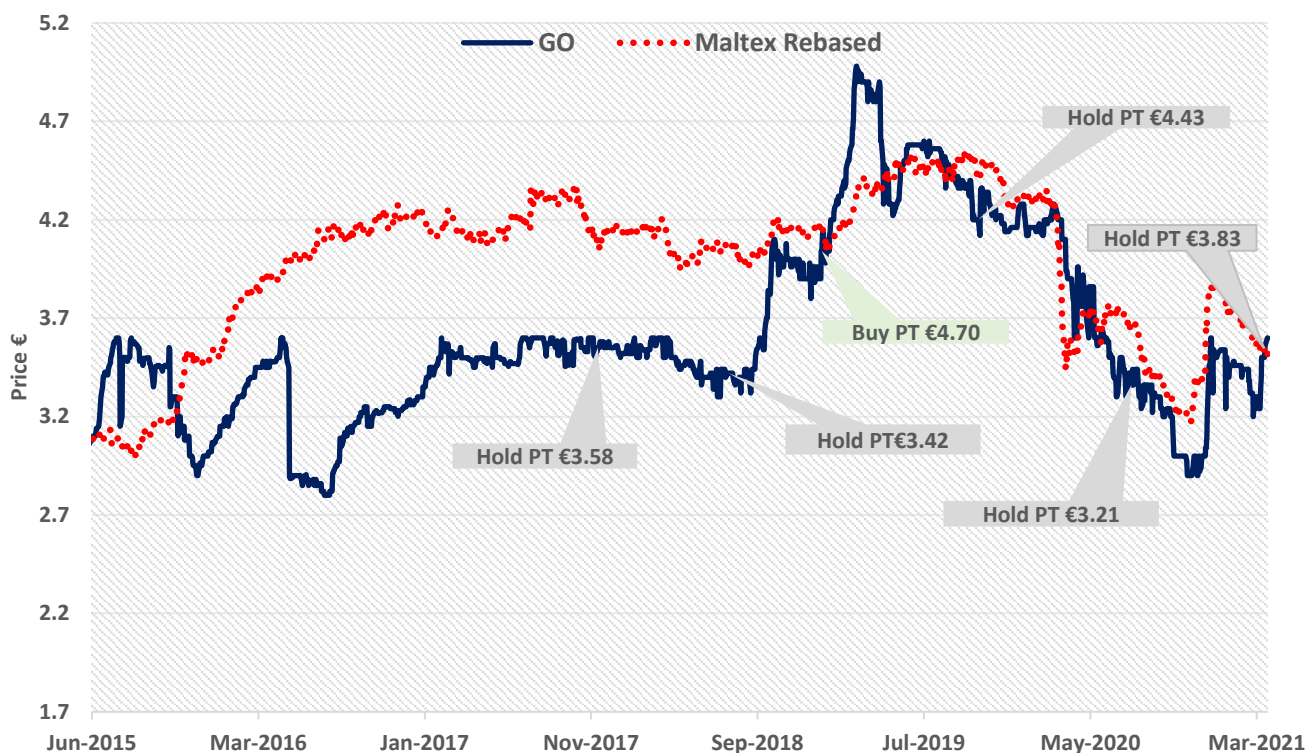
Key Financial Indicators

GO Group Financials - €M's (unless otherwise stated)	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Balance Sheet				
Inventory	8.34	7.54	6.15	6.30
Cash and Cash Equivalents	13.72	11.73	13.19	33.03
Current Assets	55.99	54.21	57.36	79.18
Non-Current Assets	195.83	201.22	270.38	278.19
Total Assets	251.82	255.43	327.74	357.37
Current Liabilities	83.77	77.75	91.66	82.54
Non-Current Liabilities	52.94	57.51	110.51	148.47
Total Liabilities	136.71	135.26	202.17	231.01
Total Debt	67.92	68.26	119.25	148.69
Total Equity	115.11	120.18	125.57	126.36
Net Debt	54.20	56.53	106.07	115.66
Shares Outstanding	101.31	101.31	101.31	101.31
Cash flow				
Cash Flow from Operating Activities (CFO)	54.90	51.10	62.01	63.67
Capex	(33.93)	(37.79)	(49.30)	57.57
Free Cash Flow (FCF)	20.97	13.31	12.70	121.24
Cash Flow from Investing Activities	(33.93)	(39.67)	(0.89)	57.73
Cash Flow from Financing Activities	(17.11)	(13.60)	(57.17)	17.21
Ratios				
Profitability				
Return on Common Equity (Net Income / Common Equity)	16.1%	17.4%	10.6%	11.1%
Return on Assets (Net Income / Total Assets)	7.2%	8.1%	4.5%	3.9%
Solvency				
Gearing Ratio Level 1 (Net Debt / Total Equity)	47.1%	47.0%	84.5%	91.5%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	54.3%	53.0%	61.7%	64.6%
Net Debt / EBITDA	0.8x	0.8x	1.4x	1.6x
Current Ratio (Current Assets / Current Liabilities)	0.7x	0.7x	0.6x	1.0x
Quick Ratio (Acid Test Ratio)	0.6x	0.6x	0.6x	0.9x
Interest Coverage Ratio (EBITDA)	30.1x	41.1x	27.0x	26.4x
Cash from Operations / EBIT	1.9x	1.5x	2.4x	3.0x

Source: GO's Financial Statements and CC workings

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
GO	24.03.2021	€3.62	€3.83	Andrew Fenech	Hold
GO	20.07.2020	€3.36	€3.21	Rowen Bonello & Andrew Fenech	Hold
GO	18.10.2019	€4.20	€4.43	Simon Psaila & Rowen Bonello	Hold
GO	09.01.2019	€4.04	€4.70	Simon Psaila & Rowen Bonello	Buy
GO	25.07.2018	€3.42	€3.52	Simon Psaila & Elisabetta Gaudiano	Hold
GO	01.12.2017	€3.55	€3.58	Simon Psaila & Elisabetta Gaudiano	Hold



Source: Bloomberg

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, we 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.

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Glossary and definitions

Income Statement	
Revenue	Total revenue generated by the Group/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 Group'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 Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
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 the average total assets (average assets of two years financial performance).
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 the statement of financial position date.
Dividends Ratios	
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 the statement of financial position date.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/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	
Free Cash Flows (FCF)	The amount of cash the Group/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 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.
Shares Outstanding	Outstanding shares refer to the Group/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	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets.
Gearing Ratio Level 1	Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 2	Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to repay its debt through EBITDA generation.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.