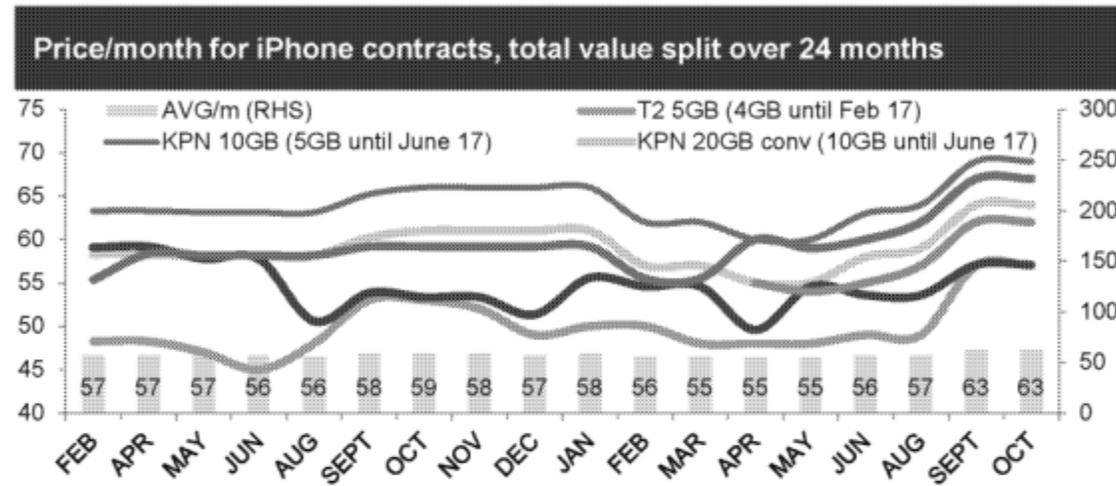


27 **KPN – Keval Khuroya, BUY, close €2.9, €4.2 tgt, 45% upside**

- **Dutch wireless market solid.** The Dutch market has shown increasing signs of rationality over the past two years and KPN performs well within this, with the company highlighting low mid-single digit underlying service revenue growth in the most recent quarter.
- **Wireless consolidation helpful.** Most of the price competition has been contained to the low-end, where Tele2 and T-Mobile NL have been active. The two operators recently announced they would consolidate (announced 15-Dec) and this should further help trends at the low-end.
- **Cost cutting progress on track.** KPN has guided to continued opex reduction through to 2019 and a reduction in capital intensity, given a high starting point (19% domestic capex/sales). This should further help continued FCF growth (2017 – 20e EFCF CAGR of >15%).
- **B2B revenue trends are improving.** This has been a major area of concern, but Q3's -4.9% decline was better than the prior quarter (-5.9%) and the 2016 decline of -7.3%. A potential return to stable revenues over the medium term would be a key positive.
- **Consumer fixed remains solid.** KPN's main fixed competitor, Ziggo, remains rational following the integration with Vodafone. Both operators have put through price rises in return for higher speeds. KPN delivered 3.2% consumer fixed revenue growth in the most recent quarter.
- **Valuation remains attractive:** KPN trades in-line with the sector on an EFCF yield of 6.5%, but with low risk and premium EFCF growth. Dividend yield is 5.4% vs peers 5.0%.
- **Catalysts:** Q4 results 31-Jan-18, progress of Tele2-TMNL deal.

Related DB Research: [Tele2 and T-Mobile NL consolidation a positive \(Khuroya\)](#)



Source: Deutsche Bank, Company data. iPhone 8 256GB from Sept-17, iPhone 7 128GB from Sept-16, iPhone 6S 64GB until Sept-16



Source: Deutsche Bank ests, Company data