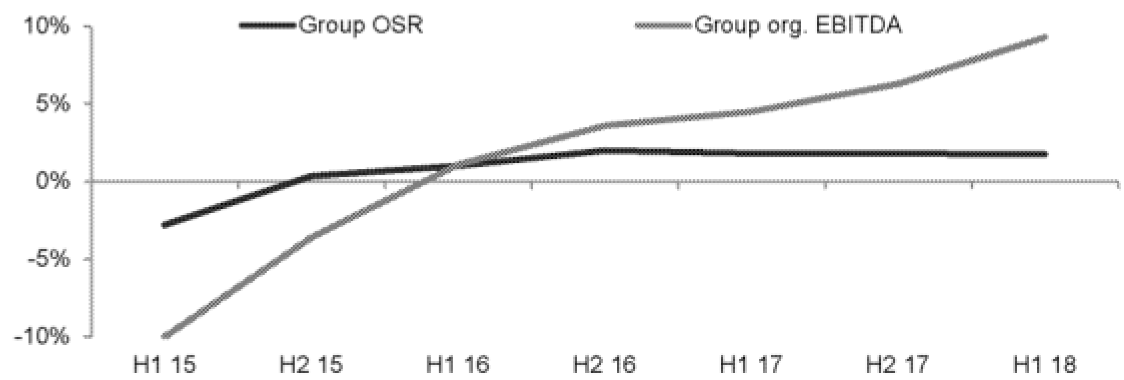
29 Vodafone – Robert Grindle, BUY, close 235p, 300p tgt, 27% upside

- Vodafone **organic EBITDA growth has reached 9.3% yoy**, but it has got little credit for this because of the lack of topline growth - organic service revenue has been flat for two years.
- However, our analysis shows that stripping out the effects of regulation and handset sales shows that **underlying MSR has been improving, growing at 2%,** compared the headline of -0.7%.
- Poor handset sales should drag less in 2018 and could accelerate; roaming regulations will annualise out from calendar Q3. Therefore, both headwinds should abate in 2018 and hence **we expect re-rating** from improving top-line.
- We believe **investment risk is overstated.** As 5G increases efficiency, lowering the cost of unit capacity, no material delta to current capital expenditure is needed.
- On **fibre**, Vodafone can choose where it deploys, pressuring incumbents into better wholesale deals.
- **We see a deal with Liberty Global for Virgin Media as possible.** Greater regulatory clarity after a few tumultuous years would enable Vodafone to sensibly value Virgin Media, making such a deal possible. This would bring substantial synergies. It could also potentially expand the CityFibre partnership.
- The stock is **cheap** at 6.0x 19E EV/EBITDA (vs. the sector at 6.5x) and a **dividend yield of 6%** (vs. the sector at 4.5%).
- Catalysts: improving organic growth and M&A

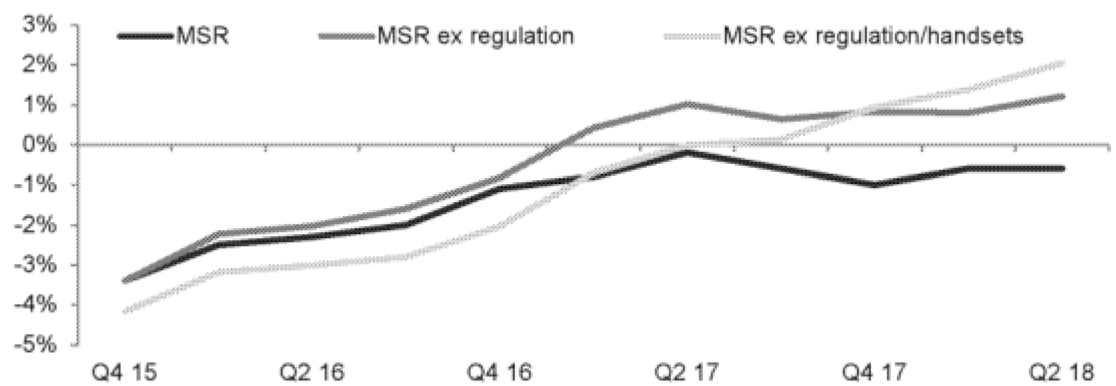
Related DB Research:
Telcos Outlook 2018: Time to call the sector up (Grindle)

Organic EBITDA growth has accelerated to 9.3%



Source: Deutsche Bank, Vodafone

Ex regulation + mobile, Vodafone is growing MSR at 2%



Source: Deutsche Bank, Vodafone