

# Magyar Telekom: swimming against the stream

We maintained our HOLD recommendation on Magyar Telekom, however, we cut our fair value estimate to HUF 430 (target price of HUF 493) mainly due to the potential effect of the new telecom tax on the company's business performance.

- Energy resale boosts revenues:** In the first three months of 2012 the firm's consolidated sales increased by 2.9% yoy to HUF 146.6 bn mainly as a result of new energy business that continuously gain ground and boost non-mobile revenues. However, excluding the contribution of gas and electricity customers, sales are expected to decrease by 1.7% in 2012 and 0.3% in 2013 partly due to outflow of subscribers from voice services.
- Gross margin to erode:** Due to the fact new revenue sources (primarily energy business) have limited effect on the company's profitability and high margin voice services continue to deteriorate going forward, we expect gross margin to decrease to 66.5% in 2016 from 72.0% in 2011.
- New tax on telecom companies:** Recently proposed telecom tax will adversely affects MTel's financials given its leading position in the domestic telecommunication market. According to our calculation, MTel has to pay extra taxes in a value of HUF 32.5 billion (HUF 24.5 bn sector tax and HUF 8 bn after outgoing traffic) this year and cca. HUF 19 billion in 2013. We think MTel has opportunity to conduct a general price increase, however, it is likely to lead to more intense outflow of subscribers from voice services.
- Dividend to remain HUF 50 next year:** We expect FCF to drop to HUF 27.5 bn this year mainly due the timing of a settlement payment (HUF 21 bn to SEC/DOJ) and the fact that two special tax will be in effect at the same time until the end of this year. However, in 2013 FCF is likely to rebound, thus, dividend may increase to HUF 55 per share. We remained conservative regarding dividend payment as we think higher payment may not be supported by the management due to the fact that MTel is unlikely to be able to pass the new tax totally to customers and new revenue sources' profitability is overly weak to offset the erosion of net profit. Furthermore, there is a risk that the 4th mobile player is penetrating the market faster than expected.
- No trigger for the share price:** Given certain risk factors regarding the Eurozone, domestic macro developments and the fact that MTel shares are trading only at 0.2% discount to its calculated fair value, we feel comfortable to maintain our HOLD recommendation with a DCF-based fair value estimate of HUF 430.

Recommendation	HOLD (unchanged)
Fair value	HUF 430
Prior:	HUF 453
Current price (BSE)	HUF 425 per share
Trading range	HUF 413-596 per share
52 week performance	-21.4%
Market capitalization	HUF 447 bn EUR 1.5 bn USD 1.9 bn
Average daily turnover	HUF 906 mn EUR 3.0 mn USD 3.7 mn
Number of shares	1,042,742,543
Shareholders' structure	MagyarCom (DT) – 59.21% Free float – 35.71%
Tickers	Reuters: MTEL.BU Bloomberg: MTELEKOM HB BSE: MTELEKOM
Closing date	05 June, 2012
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IFRS, consolidated	2008	2009	2010	2011	2012e (new)	2012e (old)	2013e (new)	2013e (old)
Net sales (in HUF mn)	673,056	643,989	609,579	597,617	601,604	563,203	611,628	555,109
EBITDA (in HUF mn)	268,378	249,053	212,966	196,082	197,854	198,348	216,136	217,881
Net income (in HUF mn)	93,008	77,618	64,378	-7,457	49,110	46,390	62,194	63,552
EPS (HUF)	89.2	74.4	61.7	-7.2	47.1	44.5	59.6	60.9
DPS (HUF)	74.0	74.0	74.0	50.0	50.0	50.0	50.0	65.0
Return on average equity (ROAE)	15.8%	12.9%	10.7%	-1.3%	8.9%	8.2%	11.2%	11.4%
P/E	6.0x	9.8x	8.4x	n.a.	9.1	12.0x	7.2	8.8x

## Earnings overview

*Energy revenues increased to HUF 5,957 million in Q1 2012 from HUF 682 million in the same period last year.*

*Management efforts (3Play, energy offers and Hoppá tariff) to bear fruit, regarding reduction of fixed churn rate.*

*Mobile revenues increased by 0.2% yoy in Q1 2012, however, positive trend may change as new MNO is expected to launch soon.*

### Sales are supported by energy resale business

Macroeconomic environment remained challenging, thus, MTel experienced flat usage and continuously declining tariffs in the voice segment as customers continued to be very cost conscious. However, in the first three months of 2012 the firm's consolidated sales increased by 2.9% yoy to HUF 146.6 bn mainly as a result of new energy business that boosted non-mobile revenues. Sales excluding the contribution of gas and electricity customers show a decline of 0.8% driven by lower voice and data revenues.

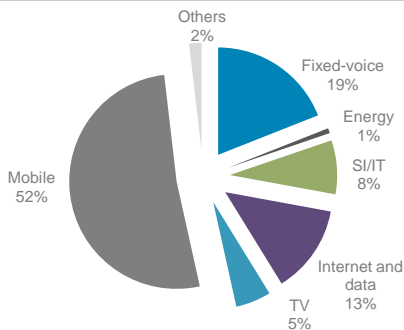
### Non-mobile business – new ways to gain ground

Revenues from data and voice services declined by 9.5% yoy and 10.7% yoy respectively in Q1 2012 mainly due to general price erosion and lower number of fixed-lines. The company had introduced a new flat fee voice package that led to lower fixed voice ARPU in Hungary. However, the successful debut of Hoppá tariff with a subscription rate of 32% in conjunction with favourable energy and 3Play bundled offers spectacularly diminished churn rate (MTel lost around 113K fixed voice customers in the last 12 months contrary to 201K a year earlier). In the first quarter non-mobile revenues were supported by moderately growing internet (+4.6% yoy) and TV (+10.2% yoy) revenues driven by strong net adds in customers base as the company's market share advanced. Furthermore revenues were also affected by some large IT projects that facilitated SI/IT business to grow by 6.5%. The latest financial figures show that MTel's new energy resale business turned out to be effective way to improve revenues, however, its NPV (in itself) is close to 0 reflecting its low margin contribution.

### Mobile business – complete silence around the 4th mobile player so far

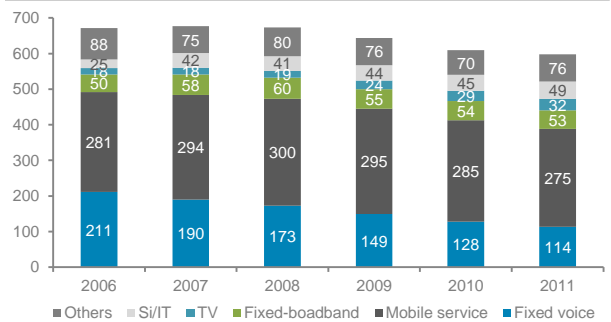
Mobile revenues remained flat in Q1 2012 as deterioration of mobile voice ARPU was counterbalanced by growing non-voice business (mobile broadband subscriptions increased by 70.7% yoy from 612K to 1,045K) and higher mobile equipment sales fuelled by the higher sales ratio of smartphones. In Macedonia and Montenegro the company's market position seems to be stabilising, while in Hungary MTel was able to gain some market share (150 bps) in terms of active SIM cards. However, positive trends in the domestic market probably will change as we assume the state-owned mobile operator may start soon. Although we have not received additional information so far we assume the company may be active at the end of this year or at the beginning of 2013 as government seems to be committed to improve competition in the mobile market in order to force companies to pass the new telecom tax to customers.

MTel's revenue breakdown in 2011



Source: Magyar Telekom, Equilor

MTel's revenue development by service type (HUF bn)



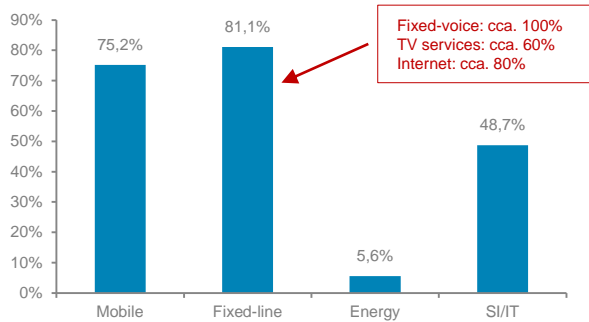
Source: Magyar Telekom, Equilor

### Net profit rebounded in Q1 2012

At the end of the last year MTel's net profit was roughly hit by several extraordinary expenses. The most significant was in connection with a goodwill impairment at the Macedonian unit in a value of HUF 34 bn. It was the main reason MTel generated loss for the first time in its history deeply underperforming our expectations. Furthermore MTel had to form additional provision of HUF 21 billion in connection with investigations of certain consultancy contracts and also had to book a one-off charge (non-cash) due to tax law changes in Hungary\*. However, as exceptional items did not occur in Q1 2012 the company's net profit rebounded and reached HUF 14.9 bn contrary to net loss of HUF 38.7 bn last quarter.

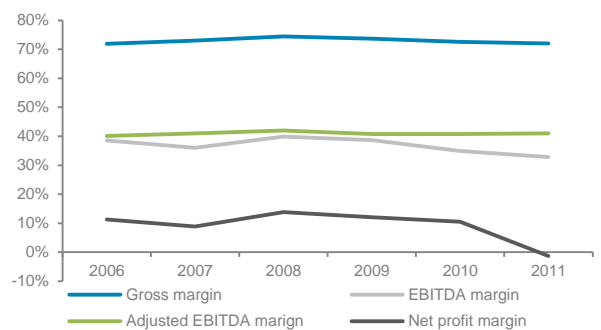
*\*In Q4 2010, one-off tax income of HUF 14.6 billion was booked according to new corporate tax law in Hungary. However, tax law changed again last year and the one-off decrease in deferred tax liabilities recognised in 2010 was reversed in Q4 2011.*

#### MTel's gross margin breakdown in 2011



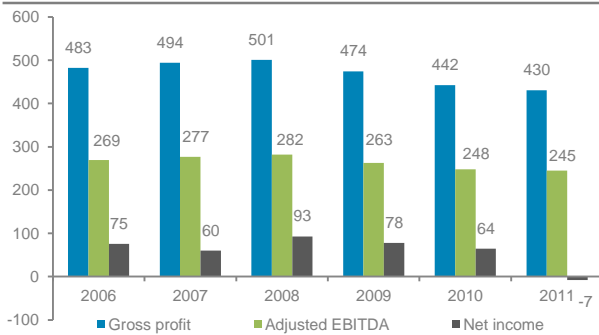
Source: Magyar Telekom, Equilor

#### MTel's margin development



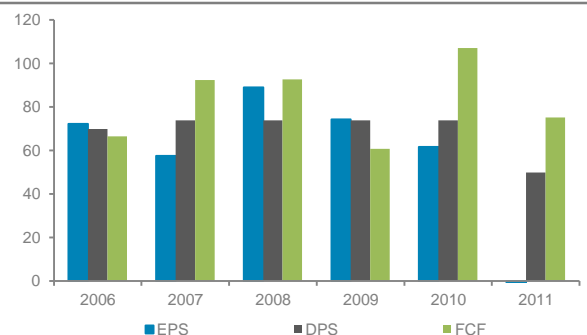
Source: Magyar Telekom, Equilor

#### MTel's gross profit, EBITDA and net income (HUF bn)



Source: Magyar Telekom, Equilor

#### MTel: Per share figures (HUF)



Source: Magyar Telekom, Equilor

## Special tax

*Competitors are ready to pass the extra tax to customers.*

### Extra tax remain in effect – old taxes to be replaced by new measures

The government has announced to impose a new HUF 2 minute-based tax on turnover generated by fixed voice and mobile accesses as well as HUF 2 on outgoing SMS/MMS from 1 July, 2012 for an indefinite period of time. However the previously imposed sector tax is planned to be abolished in 2013 according to original schedule. The proposition provides 10 minutes of tax-free usage and the tax would be maximized at HUF 700 per month for individuals and HUF 2,500 for businesses (only for 2012 caps have been removed to HUF 400 and HUF 1,400 respectively). The measure is expected to generate HUF 22.2 billion additional income for the budget this year and nearly HUF 44.4 billion in 2013. The announcement adversely affects MTel's financials given its leading position in the domestic telecommunication market with a market share of 62% and 45% in the fixed voice and mobile market respectively.

Furthermore, it also hurts the firm's competitiveness, worsening inequality among market actors as some competitors of MTel (UPC, DIGI and some alternative operators like BTel) are mainly exposed to broadband and TV rather than mobile and fixed voice services. Accordingly their tax burden would be significantly lower unless a new tax on TV or broadband services to be introduced. According to our calculation MTel has to pay extra taxes in a value of HUF 32.5 billion (HUF 24.5 bn sector tax and HUF 8 bn after outgoing traffic) this year and cca. HUF 19 billion in 2013 (see table below for more details). However, to offset its possible profit decline, MTel has opportunity to conduct a general price increase along with its main competitors (Telenor and Vodafone).

They have already signalled to pass the extra burden to customers as it has significant impact on their business performance. In our view, higher prices would facilitate the erosion of voice subscribers and cause lower traffic per head for MTel, however, we expect the influence not to be equable as outflow of subscribers may be stronger in the fixed-voice than in the mobile business due to the fact that traditional telephony has already been in the declining period of its life cycle.

NEW MINUTE-BASED TAX	2012e	2013e	2014e	2015e	2016e
Number of fixed voice customers (retail, business)	1,701,705	1,616,619	1,551,955	1,489,876	1,430,281
Group fixed outgoing MOU (monthly avg. minutes of use)	171	171	171	171	171
Minute-based tax on fixed voice turnover (HUF)	2.0	2.0	2.0	2.0	2.0
Tax exemption (HUF mn)	884	349	335	322	309
<b>Special tax on MTel's fixed voice unit (HUF million)</b>	<b>2,603</b>	<b>6,275</b>	<b>6,024</b>	<b>5,783</b>	<b>5,552</b>
Number of mobile customers (retail, business)	5,228,492	5,115,992	5,070,992	5,025,992	4,980,992
Group mobile outgoing MOU (monthly avg. minutes of use)	102	102	102	102	102
Minute-based tax on mobile turnover (HUF)	2.0	2.0	2.0	2.0	2.0
Effect of special tax exemption (HUF mn)	1,874	1,124	1,114	1,104	1,094
<b>Special tax on MTel's mobile unit (HUF million)</b>	<b>4,515</b>	<b>11,380</b>	<b>11,280</b>	<b>11,180</b>	<b>11,080</b>
Total outgoing number of SMS/MMS in Hungary (million pcs)	1,921	1,921	1,921	1,921	1,921
Estimated SMS/MMS market share of MTel	45.0%	45.0%	45.0%	45.0%	45.0%
Outgoing number of SMS/MMS at MTel	864	864	864	864	864
Tax on number of outgoing SMS/MMS (HUF)	2.0	2.0	2.0	2.0	2.0
Tax exemption (HUF mn)	0	0	0	0	0
<b>Special tax on MTel's SMS/MMS services (HUF million)</b>	<b>864</b>	<b>1,729</b>	<b>1,729</b>	<b>1,729</b>	<b>1,729</b>
<b>Extra tax on MTel (total)</b>	<b>7,982</b>	<b>19,384</b>	<b>19,033</b>	<b>18,692</b>	<b>18,360</b>

## Financial forecasts

*Energy business and price increases are expected to drive revenues in the short term.*

*New revenue sources have limited effect on profitability, thus, gross margin is expected to decline gradually in the years ahead*

*Dividend is likely to remain HUF 50 per share next year.*

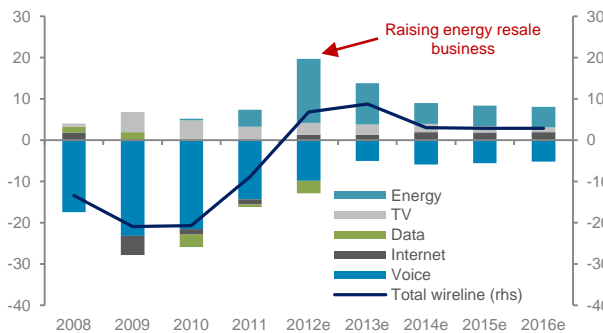
After the Q1 report we revised our earnings estimates for the company, reflecting the latest market developments. We have lifted our revenue forecast by 6.8%-12.0% for the next years mainly due to strong sales contribution of the energy resale business and the fact that the company is expected to increase its mobile-, and fixed voice tariffs in Hungary (along with Telenor and Vodafone) in order to offset the vast majority of direct effect of the new telecom tax. Although a general price increase is likely to lead more intense outflow of subscribers from voice services we assume churn rate to keep within reasonable limits as other operators also seem to be unwilling to swallow the new tax and ready to pass it to customers. Consequently we expect the continuous deterioration of the group's (including Macedonia and Montenegro) mobile-, and fixed voice ARPU to slow down this year to 3.3% and 3.1% respectively.

In our view the negative trend in the fixed-line business is likely to continue going forward, as higher prices can facilitate the erosion of traditional telephony subscribers base. We still expect the 4th mobile player to grab considerable market share in the years ahead driven by its aggressive pricing policy, however, we think it may hit MTel's position only from 2013 given its slower than expected preparation period. Accordingly, we believe that the group's mobile customers base is unlikely to grow from 2013.

As we see dynamic changes in sales structure may adversely affect MTel's margins in the years ahead, thus, gross profit margin is likely to decrease to 66.5% in 2016 from 72.0% in 2011. However, we increased our gross profit estimates by 2.2%-4.4% driven by sales development.

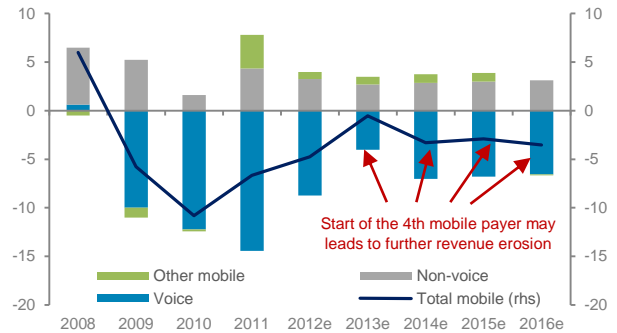
We expect the company's EBITDA to be flat this year as new taxes are likely to be counterbalanced by the lack of extraordinary expenses (e.g. SEC/DOJ settlement). However, EBITDA can rebound in 2013 as previously imposed sector tax (cca. HUF 24.5 bn) is planned to be abolished according to original schedule. As some extraordinary items may not occur in the next years, net profit is set to enter into a short upcycle and rise to HUF 49 bn this year and 62 bn in 2013 after earnings hit bottom in 2011. We expect the company's profit to gradually decline after 2013 due to continuous margin erosion that will probably not be counterbalanced by cost rationalization measures. We expect FCF to drop to HUF 27.5 bn this year mainly due the timing of a settlement payment (HUF 21 bn to SEC/DOJ) and the fact that two special tax will be in effect at the same time until the end of this year. However, in 2013 FCF is likely to rebound, thus, dividend may increase to HUF 55 per share. We remained conservative regarding dividend payment as we think higher payment may not be supported by the management due to several downward pressure potentially occur in the years ahead.

MTel: contribution to fixed sales (HUF bn)



Source: Magyar Telekom, Equilor

MTel: contribution to mobile sales (HUF bn)



Source: Magyar Telekom, Equilor

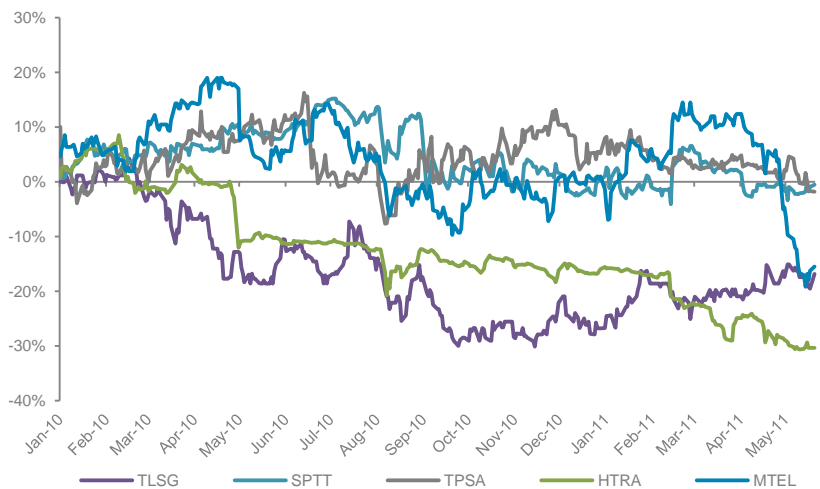
## Valuation

Magyar Telekom's share price fell sharply to historically low levels, deeply underperforming its regional peers this year. We attribute this weak performance to three factors: 1) negative sentiment towards equity and other assets classes due to fragile international macro environment coupled with weaker domestic growth prospects, 2) dividend payment of HUF 50 per share in May, 3) government decided to levy a new minute-based tax on telecom companies for an indefinite period of time. Reflecting these factors and the company's recently published financial reports we fine-tuned our earnings estimates and updated our valuation model. As a result we cut our fair value estimate to HUF 430 as we think the company will probably not pass the new tax totally to customers. Although at 2012e EV/EBITDA of 3.7x MTel shares seems to be attractive, we do not see any trigger for the share price in the short term as frightfully increasing risk premium is expected to be the main driver in the domestic capital market. Given certain risk factors regarding the Eurozone, domestic macro developments and the fact that MTel shares are trading at only 0.2% discount to its calculated fair value, we feel comfortable to maintain our HOLD recommendation.

### Overview of our valuation method

We determined the company's fair price by a DCF-based valuation model. According to our estimates the present value of the firm's free cash flow (FCFF) is HUF 322 per share in the explicit period (2012e-2016e) and HUF 472 per share in the implicit period (2016e-). From the calculated Enterprise Value (EV) of HUF 794 per share we deducted the gross debt and the market value of minority interests, while we added some non-operating assets (mainly financial assets) in a value of HUF 43.6 per share so as to arrive at Equity Value. The calculated market value of the minority interests are higher than its book value in our view, reflecting the relatively high profitability ratios of MTel's foreign units.

### Share price performance of regional telecom companies



Source: Magyar Telekom, Equilor

**DCF VALUATION MODEL**

in HUF million, except stated otherwise	2012e	2013e	2014e	2015e	2016e
Net sales	601,604	611,628	612,862	614,329	615,261
Growth	0.7%	1.7%	0.2%	0.2%	0.2%
EBITDA	197,854	216,136	212,223	208,467	204,327
EBITDA margin	32.9%	35.3%	34.6%	33.9%	33.2%
Depreciation and amortization	-99,736	-99,705	-99,208	-98,712	-99,202
EBIT	98,117	116,430	113,015	109,755	105,125
Tax on EBIT	19,623	23,286	22,603	21,951	21,025
<b>NOPLAT</b>	78,494	93,144	90,412	87,804	84,100
Depreciation and amortization	99,736	99,705	99,208	98,712	99,202
Capital expenditures	-97,900	-90,000	-90,000	-97,000	-97,000
Change in working capital	-19,267	-652	-323	2,191	2,356
<b>Free cash flow</b>	61,063	102,197	99,297	91,706	88,658
Risk-free rate	8.5%	8.5%	8.5%	8.5%	8.5%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%
Levered beta	1.0	1.0	1.0	1.0	1.0
Cost of equity	14.7%	14.6%	14.5%	14.4%	14.4%
Weight of equity	59.7%	61.4%	62.4%	62.9%	63.1%
WACC	11.7%	11.7%	11.7%	11.8%	11.8%
<b>PV of FCF</b>	57,782	86,562	75,265	62,198	53,803
Sum of FCF PVs	335,610				
Terminal value	810,788				
PV of terminal value	492,031				
Enterprise value	827,640				
Non-operating assets	45,494				
PV of minority interests	78,558				
Gross debt	346,314				
Equity value	448,262				
<b>Equity value per share (HUF)</b>	<b>430</b>				
12m target price (HUF)	493				

Source: Equilor estimates

## KEY PERFORMANCE INDICATORS

in HUF mn, except stated otherwise	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e
<b>GROUP FIXED LINE (Avg. number of subscribers)</b>									
Hungary	2,404,498	2,212,984	1,942,590	1,810,324	1,701,705	1,616,619	1,551,955	1,489,876	1,430,281
Macedonia	446,935	388,343	351,682	321,257	298,769	277,855	258,406	240,317	223,495
Montenegro	182,819	176,571	170,727	169,372	166,831	164,329	161,864	159,436	157,044
<b>Group wireline voice subscribers</b>	<b>3,034,252</b>	<b>2,777,897</b>	<b>2,464,999</b>	<b>2,300,953</b>	<b>2,167,305</b>	<b>2,058,803</b>	<b>1,972,224</b>	<b>1,889,629</b>	<b>1,810,821</b>
Group wireline voice ARPU (HUF)	4,742	4,483	4,325	4,114	3,988	3,994	3,919	3,845	3,772
<b>GROUP MOBILE (Avg. number of subscribers)</b>									
Hungary	5,131,956	5,232,378	5,151,684	5,228,492	5,228,492	5,115,992	5,070,992	5,025,992	4,980,992
Macedonia	1,288,934	1,376,620	1,313,461	1,277,825	1,239,490	1,239,490	1,239,490	1,239,490	1,239,490
Montenegro	454,965	539,289	425,969	405,017	384,766	373,223	373,223	373,223	373,223
<b>Group mobile subscribers</b>	<b>6,875,856</b>	<b>7,148,286</b>	<b>6,891,114</b>	<b>6,911,334</b>	<b>6,852,748</b>	<b>6,728,705</b>	<b>6,683,705</b>	<b>6,638,705</b>	<b>6,593,705</b>
Group mobile voice ARPU (HUF)	3,020	2,789	2,745	2,563	2,479	2,474	2,403	2,334	2,267
Group mobile non-voice ARPU (HUF)	617	655	699	749	795	843	885	928	974
<b>GROUP BROADBAND (Avg. number of subscribers)</b>									
Hungary	746,058	789,311	807,904	847,221	889,582	925,166	952,921	981,508	1,010,953
Macedonia	91,290	119,889	143,843	156,647	169,179	179,329	188,296	195,828	203,661
Montenegro	51,798	57,574	61,573	73,018	78,859	84,379	89,442	93,914	97,671
<b>Wireline broadband subscribers</b>	<b>889,145</b>	<b>966,774</b>	<b>1,013,320</b>	<b>1,076,886</b>	<b>1,137,620</b>	<b>1,188,874</b>	<b>1,230,659</b>	<b>1,271,250</b>	<b>1,312,285</b>
Group Broadband ARPU (HUF)	5,594	4,749	4,421	4,067	3,945	3,866	3,866	3,866	3,866
<b>GROUP TV (Avg. number of subscribers)</b>									
Hungary	439,910	566,407	714,765	769,652	809,652	839,652	859,652	869,652	874,652
Macedonia	488	8,005	23,008	35,562	46,116	54,116	60,116	64,116	66,116
Montenegro	12,541	23,879	34,861	44,574	53,574	61,574	67,574	71,574	73,574
<b>Group TV subscribers</b>	<b>452,939</b>	<b>598,291</b>	<b>772,634</b>	<b>849,788</b>	<b>909,342</b>	<b>955,342</b>	<b>987,342</b>	<b>1,005,342</b>	<b>1,014,342</b>
Group TV ARPU (HUF)	3,464	3,308	3,079	3,117	3,179	3,243	3,308	3,374	3,442
<b>REVENUE BREAKDOWN</b>									
in HUF mn, except stated otherwise	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e
<b>WIRES REVENUES</b>									
Voice revenues	172,668	149,455	127,940	113,588	103,723	98,676	92,742	87,182	81,972
Internet revenues	59,682	55,089	53,755	52,560	53,859	55,159	57,098	58,981	60,885
Data revenues	28,839	30,762	27,710	27,050	24,068	24,068	24,068	24,068	24,068
TV revenues	18,830	23,753	28,549	31,787	34,695	37,179	39,193	40,706	41,891
Equipment revenues	7,058	4,745	4,091	3,852	3,668	3,597	3,566	3,532	3,499
Other fixed line revenues	12,818	10,276	7,171	7,201	6,858	6,723	6,666	6,603	6,541
Energy service revenues	0	0	417	4,514	20,000	30,000	35,000	40,000	45,000
<b>Total wireline revenues</b>	<b>299,895</b>	<b>274,080</b>	<b>249,633</b>	<b>240,552</b>	<b>246,871</b>	<b>255,402</b>	<b>258,333</b>	<b>261,073</b>	<b>263,857</b>
<b>MOBILE REVENUES</b>									
Voice revenues	249,219	239,226	226,999	212,544	203,817	199,788	192,750	185,959	179,404
Non-voice revenues	50,936	56,188	57,789	62,146	65,392	68,089	70,955	73,942	77,054
<b>Mobile services revenues</b>	<b>300,155</b>	<b>295,414</b>	<b>284,788</b>	<b>274,690</b>	<b>269,209</b>	<b>267,877</b>	<b>263,706</b>	<b>259,901</b>	<b>256,458</b>
Equipment and activation revenues	21,169	21,320	22,691	25,999	27,000	28,000	29,000	30,000	30,000
Other mobile revenues	10,441	9,262	7,694	7,829	7,550	7,336	7,219	7,113	7,017
<b>Total mobile revenues</b>	<b>331,765</b>	<b>325,996</b>	<b>315,173</b>	<b>308,518</b>	<b>303,759</b>	<b>303,212</b>	<b>299,925</b>	<b>297,014</b>	<b>293,475</b>
<b>SI/IT REVENUES</b>									
System integration and IT revenues	41,396	43,913	44,773	48,547	50,974	53,013	54,604	56,242	57,929
<b>Total SI/IT revenues</b>	<b>41,396</b>	<b>43,913</b>	<b>44,773</b>	<b>48,547</b>	<b>50,974</b>	<b>53,013</b>	<b>54,604</b>	<b>56,242</b>	<b>57,929</b>
<b>Net sales</b>	<b>673,056</b>	<b>643,989</b>	<b>609,579</b>	<b>597,617</b>	<b>601,604</b>	<b>611,628</b>	<b>612,862</b>	<b>614,329</b>	<b>615,261</b>
growth (%)	-0.53%	-4.32%	-5.34%	-1.96%	0.67%	1.67%	0.20%	0.24%	0.15%



## INCOME STATEMENT

in HUF million, except stated otherwise	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e
Mobile revenues	331,765	325,996	315,173	308,518	303,759	303,212	299,925	297,014	293,475
Fixed line revenues (excl. Energy)	299,895	274,080	249,216	236,038	226,871	225,402	223,333	221,073	218,857
Energy revenues	0	0	417	4,514	20,000	30,000	35,000	40,000	45,000
SI/IT revenues	41,396	43,913	44,773	48,547	50,974	53,013	54,604	56,242	57,929
<b>Net sales</b>	<b>673,056</b>	<b>643,989</b>	<b>609,579</b>	<b>597,617</b>	<b>601,604</b>	<b>611,628</b>	<b>612,862</b>	<b>614,329</b>	<b>615,261</b>
growth (%)	-0.5%	-4.3%	-5.3%	-2.0%	0.7%	1.7%	0.2%	0.2%	0.2%
Mobile services-related payments	n.a.	n.a.	n.a.	-76,416	-74,864	-73,181	-72,379	-71,672	-70,807
Fixed line-related payments	n.a.	n.a.	n.a.	-44,504	-42,710	-42,975	-43,703	-44,372	-45,027
Energy-related payments	n.a.	n.a.	n.a.	-4,263	-18,880	-28,320	-33,040	-37,760	-42,480
SI/IT-related payments	n.a.	n.a.	n.a.	-24,890	-26,150	-27,196	-28,012	-28,852	-29,718
Agent commissions	n.a.	n.a.	n.a.	-10,974	-11,047	-11,231	-11,254	-11,281	-11,298
Bad debt expense	-4,353	-9,072	-9,991	-6,225	-6,346	-6,451	-6,464	-6,480	-6,490
Expenses directly related to revenue	-171,911	-169,648	-167,418	-167,272	-179,996	-189,354	-194,852	-200,416	-205,820
<b>Gross profit</b>	<b>501,145</b>	<b>474,341</b>	<b>442,161</b>	<b>430,345</b>	<b>421,608</b>	<b>422,274</b>	<b>418,010</b>	<b>413,913</b>	<b>409,442</b>
Gross profit margin (%)	74.5%	73.7%	72.5%	72.0%	70.1%	69.0%	68.2%	67.4%	66.5%
Other income	0	0	0	6,392	1,000	1,000	1,000	1,000	1,000
Employee-related expenses	-91,810	-94,278	-87,919	-85,757	-84,757	-83,757	-83,757	-83,757	-83,757
Other operating expenses, net	-127,065	-117,255	-105,938	-105,997	-104,997	-103,997	-103,997	-103,997	-103,997
Sector tax	0	0	-26,970	-25,350	-32,500	-19,384	-19,033	-18,692	-18,360
Investigation-related costs	-5,420	-6,398	-2,313	-17,485	0	0	0	0	0
Severance payments, provisions	-8,472	-7,357	-6,055	-6,066	-2,500	0	0	0	0
<b>EBITDA</b>	<b>268,378</b>	<b>249,053</b>	<b>212,966</b>	<b>196,082</b>	<b>197,854</b>	<b>216,136</b>	<b>212,223</b>	<b>208,467</b>	<b>204,327</b>
EBITDA margin (%)	39.9%	38.7%	34.9%	32.8%	32.9%	35.3%	34.6%	33.9%	33.2%
Adjusted EBITDA margin (%)	41.9%	40.8%	40.7%	41.0%	38.7%	38.5%	37.7%	37.0%	36.2%
Depreciation and amortization	-106,120	-101,920	-100,872	-132,915	-99,736	-99,705	-99,208	-98,712	-99,202
<b>Operating profit (EBIT)</b>	<b>162,258</b>	<b>147,133</b>	<b>112,094</b>	<b>63,167</b>	<b>98,117</b>	<b>116,430</b>	<b>113,015</b>	<b>109,755</b>	<b>105,125</b>
EBIT margin (%)	24.1%	22.8%	18.4%	10.6%	16.3%	19.0%	18.4%	17.9%	17.1%
Financial income	6,891	8,526	4,938	3,633	5,315	5,333	5,340	5,341	5,342
Financial expenses	-37,199	-41,339	-33,051	-36,095	-29,090	-31,114	-29,509	-28,468	-27,986
Share of associates' profit	1,341	-109	-27	12	0	0	0	0	0
<b>Profit before taxes</b>	<b>133,291</b>	<b>114,211</b>	<b>83,954</b>	<b>30,717</b>	<b>74,342</b>	<b>90,649</b>	<b>88,846</b>	<b>86,628</b>	<b>82,481</b>
Income tax expense	-27,698	-20,958	-6,583	-27,538	-14,868	-18,130	-17,769	-17,326	-16,496
<b>Net income , before minorities</b>	<b>105,593</b>	<b>93,253</b>	<b>77,371</b>	<b>3,179</b>	<b>59,474</b>	<b>72,519</b>	<b>71,077</b>	<b>69,302</b>	<b>65,985</b>
Tax rate (%)	-20.8%	-18.4%	-7.8%	-42.1%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
Minority interests	-12,585	-15,635	-12,993	-10,636	-10,364	-10,325	-10,220	-10,119	-10,007
<b>Net income</b>	<b>93,008</b>	<b>77,618</b>	<b>64,378</b>	<b>-7,457</b>	<b>49,110</b>	<b>62,194</b>	<b>60,857</b>	<b>59,183</b>	<b>55,978</b>
Profit margin (%)	13.8%	12.1%	10.6%	-1.2%	8.2%	10.2%	9.9%	9.6%	9.1%
ROAE (%)	15.8%	12.9%	10.7%	-1.3%	8.9%	11.2%	10.8%	10.5%	9.9%
Dividend to shareholders	-95,343	-93,640	-91,819	-52,137	-52,137	-52,137	-57,351	-57,351	-57,351
<b>Retained earnings</b>	<b>-2,335</b>	<b>-16,022</b>	<b>-27,441</b>	<b>-59,594</b>	<b>-3,027</b>	<b>10,057</b>	<b>3,506</b>	<b>1,832</b>	<b>-1,372</b>
EPS - Earnings Per Share	89.2	74.4	61.7	-7.2	47.1	59.6	58.4	56.8	53.7
FCF - Cash Flow Per Share	92.9	60.9	107.2	75.3	27.5	68.6	66.9	60.5	58.1
DPS - Dividend Per Share	74.0	74.0	74.0	50.0	50.0	50.0	55.0	55.0	55.0
Number of shares outstanding (mn pcs)	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043

**BALANCE SHEET**

in HUF million, except stated otherwise	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e
Property, plant and equipment, net	543,689	550,745	549,752	536,224	538,153	542,811	546,818	557,263	566,246
Intangible assets, net	335,379	335,615	332,993	308,313	304,548	290,184	276,969	264,812	253,627
Long-term financial assets	31,070	28,761	24,774	32,345	32,345	32,345	32,345	32,345	32,345
Deferred tax assets	1,590	1,890	913	750	750	750	750	750	750
<b>Non-current assets</b>	<b>911,728</b>	<b>917,011</b>	<b>908,432</b>	<b>877,632</b>	<b>875,796</b>	<b>866,090</b>	<b>856,882</b>	<b>855,170</b>	<b>852,968</b>
Cash and cash equivalents	66,680	34,270	15,841	14,451	15,040	15,291	15,322	15,358	15,382
Short-term financial assets	68,498	87,611	56,560	65,286	65,286	65,286	65,286	65,286	65,286
Receivables	104,571	114,428	116,429	125,590	126,914	129,028	129,289	129,598	129,795
Inventories	13,291	9,788	9,592	9,904	9,889	10,054	10,074	10,099	10,114
Other assets	1,775	3,269	2,152	5,165	5,165	5,165	5,165	5,165	5,165
<b>Current assets</b>	<b>254,815</b>	<b>249,366</b>	<b>200,574</b>	<b>220,396</b>	<b>222,294</b>	<b>224,824</b>	<b>225,136</b>	<b>225,506</b>	<b>225,741</b>
<b>Total assets</b>	<b>1,166,543</b>	<b>1,166,377</b>	<b>1,109,006</b>	<b>1,098,028</b>	<b>1,098,090</b>	<b>1,090,915</b>	<b>1,082,018</b>	<b>1,080,676</b>	<b>1,078,710</b>
Long-term debt	266,136	293,219	242,992	248,094	251,614	232,503	220,112	214,377	211,192
Deferred tax liabilities	11,071	18,594	10,924	26,270	26,270	26,270	26,270	26,270	26,270
Provisions	10,049	9,721	12,298	11,236	11,236	11,236	11,236	11,236	11,236
Other long-term liabilities	1,304	1,100	1,263	947	947	947	947	947	947
<b>Total non-current liabilities</b>	<b>288,560</b>	<b>322,634</b>	<b>267,477</b>	<b>286,547</b>	<b>290,067</b>	<b>270,956</b>	<b>258,565</b>	<b>252,830</b>	<b>249,645</b>
Short-term debt	123,374	98,091	118,795	98,220	118,795	118,795	118,795	118,795	118,795
Liabilities for SEC/DOJ settlement	0	0	0	21,800	0	0	0	0	0
Trade payables	92,340	85,874	88,613	101,119	104,816	105,409	104,481	106,440	108,421
Current tax payables	1,697	624	661	1,335	1,335	1,335	1,335	1,335	1,335
Provisions	15,842	12,692	7,722	3,703	3,703	3,703	3,703	3,703	3,703
Other short-term liabilities	48,183	41,042	31,026	29,213	29,947	31,232	32,148	32,751	33,360
<b>Total current liabilities</b>	<b>281,436</b>	<b>238,323</b>	<b>246,817</b>	<b>255,390</b>	<b>258,596</b>	<b>260,474</b>	<b>260,462</b>	<b>263,023</b>	<b>265,614</b>
Share capital	104,275	104,275	104,275	104,275	104,275	104,275	104,275	104,275	104,275
Reserves	27,379	27,379	27,379	27,379	27,379	27,379	27,379	27,379	27,379
Treasury stock	-1,179	-1,179	-307	-307	-307	-307	-307	-307	-307
Accumulated other comprehensive income	5,787	9,755	14,882	30,959	30,959	30,959	30,959	30,959	30,959
Retained earnings	397,684	398,250	385,283	325,709	322,682	332,739	336,245	338,077	336,704
Minority interests	62,601	66,940	63,200	68,076	64,440	64,440	64,440	64,440	64,440
<b>Equity</b>	<b>596,547</b>	<b>605,420</b>	<b>594,712</b>	<b>556,091</b>	<b>549,428</b>	<b>559,485</b>	<b>562,991</b>	<b>564,823</b>	<b>563,450</b>
<b>Total equity and liabilities</b>	<b>1,166,543</b>	<b>1,166,377</b>	<b>1,109,006</b>	<b>1,098,028</b>	<b>1,098,090</b>	<b>1,090,915</b>	<b>1,082,018</b>	<b>1,080,676</b>	<b>1,078,710</b>

**CASH FLOW STATEMENT**

in HUF million, except stated otherwise	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e
Profit before tax	133,291	114,211	83,954	30,717	74,342	90,649	88,846	86,628	82,481
Income tax expense	-20,768	-16,053	-11,419	-10,999	-14,868	-18,130	-17,769	-17,326	-16,496
Amortization and depreciation	106,120	101,920	100,872	132,915	99,736	99,705	99,208	98,712	99,202
Change in net working capital	-6,898	-9,576	-15,567	16,662	-18,678	-401	-292	2,227	2,379
Other operating cash-flow	-1,456	3,293	6,830	-514	0	0	0	0	0
<b>Operating cash-Flow</b>	<b>210,289</b>	<b>193,795</b>	<b>164,670</b>	<b>168,781</b>	<b>140,532</b>	<b>171,823</b>	<b>169,993</b>	<b>170,241</b>	<b>167,566</b>
Capex	-107,949	-101,864	-91,762	-83,796	-97,900	-90,000	-90,000	-97,000	-97,000
Other Investments	-762	-5,193	-1,534	-2,675	0	0	0	0	0
Other investment cash-flow	-4,738	-23,242	40,448	8,719	0	0	0	0	0
<b>Investment cash-Flow</b>	<b>-113,449</b>	<b>-130,299</b>	<b>-52,848</b>	<b>-77,752</b>	<b>-97,900</b>	<b>-90,000</b>	<b>-90,000</b>	<b>-97,000</b>	<b>-97,000</b>
Dividend	-95,343	-93,640	-91,819	-64,626	-66,137	-62,462	-67,571	-67,470	-67,357
Change in debt	16,113	-2,920	-38,748	-28,602	24,095	-19,110	-12,391	-5,735	-3,185
Other financial cash-flow	0	0	-22	0	0	0	0	0	0
<b>Financial cash-Flow</b>	<b>-79,230</b>	<b>-96,560</b>	<b>-130,589</b>	<b>-93,228</b>	<b>-42,043</b>	<b>-81,572</b>	<b>-79,962</b>	<b>-73,205</b>	<b>-70,543</b>
Effect of exchange rate fluctuations	1,404	654	338	809	0	0	0	0	0
<b>Change in cash</b>	<b>19,014</b>	<b>-32,410</b>	<b>-18,429</b>	<b>-1,390</b>	<b>589</b>	<b>251</b>	<b>31</b>	<b>37</b>	<b>23</b>
Cash at the beginning of period	47,666	66,680	34,270	15,841	14,451	15,040	15,291	15,322	15,358
<b>Cash at the end of period</b>	<b>66,680</b>	<b>34,270</b>	<b>15,841</b>	<b>14,451</b>	<b>15,040</b>	<b>15,291</b>	<b>15,322</b>	<b>15,358</b>	<b>15,382</b>

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