

SWISSCOM

Investing to stay ahead

Swisscom delivered a relatively resilient set of results and continues to manage sector threats well compared to peers. A rebasing upwards of capex expectations is mainly driven by higher domestic fibre investment, where we see a clearer path to future returns compared to EU peers (high market share and cost sharing). Indeed our detailed analysis of fixed ABC (access, broadband and calls) highlights continued improvement for Swisscom in 4Q whilst mobile trends are stable sequentially. We continue to rate Swisscom 1-OW, TP: CHF420 (from CHF450).

Capex conundrum. We see the rationale behind higher domestic capex in the long term in terms of protecting market share and pricing power. And indeed argued in our recent sector note (*Addicted to dividends*, 8 December) that EU incumbents face reinvestment and pressure on dividends. However, near term FCF downgrades mean Swisscom now has mid term dividend payout of c65-80% of FCF assuming no growth but crucially on lower net debt/EBITDA at 1.8x versus EU peers at over 2.0x.

Domestic – continued RGU growth. Network investment and bundling continue to reap reward as Swisscom reported 2.9% RGU growth in 4Q and ABC revenue growth of -0.8%. This remains driven by improving line loss and strong TV and to an extent broadband growth. In mobile we estimate underlying service revenue growth was broadly flat, in line with the prior quarter. In this note we undertake a detailed deep dive into fixed and mobile trends.

Valuation – CHF420 price target. EBITDA falls ca1-2% with EPS -4-5%. We estimate Swisscom currently trades on 10.7x 2012E P/E, 6.6x 2012E EV/EBITDA and offers a 6.0% 2012E dividend yield compared to the sector on 10.1x, 4.8x and 8.8%.

SCMN.VX: Financial and Valuation Metrics CHF

FY Dec	2010	2011	2012	2013	2014
EPS	35.00A	13.20A	34.50E	33.90E	34.50E
Previous EPS	35.00A	12.80E	36.30E	36.10E	N/A
EV/EBITDA	NA	6.3x	6.6x	6.6x	6.4x
Dividend Yield	NA	6.0%	6.0%	6.3%	6.3%
P/E	10.5	27.8	10.7	10.8	10.7

Source: Barclays Capital

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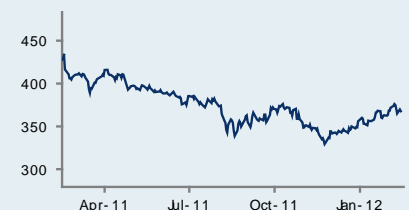
Stock Rating	1-OVERWEIGHT Unchanged
Sector View	3-NEGATIVE Unchanged
Price Target	CHF 420.00 lowered -7% from CHF 450.00

Price (14-Feb-2012)	CHF 367.60
Potential	+14%
Upside/Downside	
Tickers	SCMN.VX / SCMN.VX

Market Cap (CHF mn)	19042
Shares Outstanding (mn)	51.80
Free Float (%)	43.06
52 Wk Avg Daily Volume (mn)	0.1
Dividend Yield (%)	5.8
Return on Equity TTM (%)	34.30
Current BVPS (CHF)	97.66

Source: FactSet Fundamentals

Price Performance	Exchange-SWX
52 Week range	CHF 433.50-323.10



Link to Barclays Capital Live for interactive charting

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COMPANY SNAPSHOT

Swisscom

European Telecom Services

Income statement (CHFm)	2011A	2012E	2013E	2014E	CAGR
Revenue	11,467	11,396	11,615	11,904	1.3%
EBITDA	4,584	4,396	4,408	4,492	-0.7%
EBIT	1,126	2,530	2,482	2,523	30.8%
Finance costs - net	(311)	(295)	(284)	(284)	NA
Pre-tax income	845	2,265	2,228	2,268	39.0%
Tax rate (%)	17.9	21.0	21.0	21.0	5.5%
Net income	694	1,789	1,760	1,792	37.2%
EPS (reported) (CHFc)	13.2	34.5	34.0	34.6	37.9%
Diluted shares (m)	51.8	51.8	51.8	51.8	0.0%
Dividend per share (CHFc)	22.0	22.0	23.0	23.0	1.5%

Margin and return data (%)	Average				
EBITDA margin	40.0	38.6	37.9	37.7	38.6
EBIT margin	9.8	22.2	21.4	21.2	18.6
Pre-tax margin	7.4	19.9	19.2	19.1	16.4
Net margin	6.1	15.7	15.2	15.1	13.0
Operating CF margin	13.6	13.6	15.2	15.0	14.3
ROIC	3.4	9.0	8.5	8.3	7.3
RONTA	8.4	20.4	19.6	19.6	17.0
ROA	3.4	9.0	8.4	8.3	7.3
ROE	13.2	38.9	33.6	30.6	29.1

Balance sheet and cash flow (CHFm)	CAGR				
Tangible fixed assets	8,222	8,753	8,978	9,136	3.6%
Intangible fixed assets	6,543	6,543	6,543	6,543	0.0%
Cash and equivalents	314	755	1,366	1,940	83.5%
Total assets	19,450	20,422	21,258	21,990	4.2%
Short and long-term debt	8,831	8,831	8,831	8,831	0.0%
Other long-term liabilities	1,977	1,977	1,977	1,977	0.0%
Total liabilities	15,154	15,476	15,692	15,824	1.5%
Net debt	8,309	7,868	7,257	6,683	-7.0%
Shareholders' equity	4,272	4,928	5,555	6,161	13.0%
Cash flow from operations	3,649	3,951	3,914	3,909	2.3%
Capex and acquisitions	2,095	2,397	2,150	2,128	0.5%
Free cash flow	1,554	1,553	1,764	1,781	4.7%
NOPAT	694	1,789	1,760	1,792	37.2%

Valuation and leverage metrics	Average				
P/E (x)	27.9	10.6	10.8	10.6	15.0
EV/EBITDA (x)	6.3	6.6	6.6	6.4	6.5
FCF yield (%)	8.2	8.2	9.3	9.4	8.7
EV/Sales (x)	2.5	2.5	2.5	2.4	2.5
Price/BV (x)	4.5	3.9	3.4	3.1	3.7
Dividend yield (%)	6.0	6.0	6.3	6.3	6.1
Total debt/capital (%)	45.5	43.3	41.6	40.2	42.6
Net debt/EBITDA (x)	1.8	1.8	1.6	1.5	1.7

Selected operating metrics	2010A	2011A	2012E	2013E	2014E
Swiss mobile serv growth (%)	-1.0	-0.4	1.7	3.2	
Swiss ARPU (CHF)	47.3	45.8	45.4	45.8	
Fastweb Subscribers (000's)	1,595	1,635	1,692	1,735	

Source: Company data, Barclays Capital

Stock Rating	1-OVERWEIGHT
Sector View	3-NEGATIVE
Price (14-Feb-2012)	368
Price Target	420
Ticker	SCMN.VX/SCMN VX

Investment case

Why 1-Overweight? Swisscom's strong domestic trends are attractive. Our analysis of sector volatility highlights Swisscom as one of the least volatile stocks with potential for increasing returns.

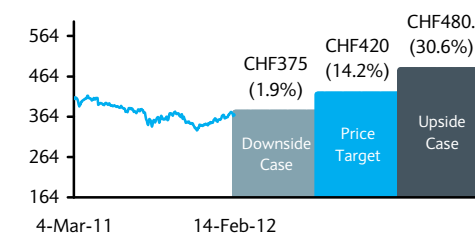
Upside case **480**

Domestic revenue growth at Swisscom continues at 2.0% CAGR with cost cutting preserving existing margins. Our upside case points to a value of CHF501.

Downside case **375**

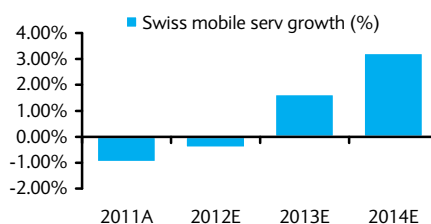
Competition increases in Switzerland encouraged by increased regulation in both mobile and fixed resulting in zero domestic revenue growth (CAGR) and 200bp's margin decline. Our downside case points to a value of CHF409.

Upside/downside scenarios



Source: DataStream

Swiss mobile service revenue growth



Note: FY end Dec.

Analyst meeting feedback

On 15th of February Swisscom hosted an analyst meeting where the company presented its strategy update and highlights of the 4Q11 results; below is a summary of the key points:

The company sees increased investment as necessary to protect future returns and highlights growing underlying domestic revenue. The only reason for a flat dividend in 2012 is spectrum auctions and we see the company returning to a normal policy of small dividend increases post spectrum auctions.

Cashflow/dividends

- CCY basis for 2011, revenue -2.3% and EBITDA +1.2% but OpFCF down 7.5%
- OpFCF, has it peaked? Cleaning up costs and new mobile deal good. Revenue can be driven by new services but next three years are challenged by move from metered to non-metered tariffs. Next three years capex is set and thereafter depends on FTTC. So small declines on three year view.
- Working cap - should normalise ie positive with pension charge of CHF70m
- 70% of cash out (opex/capex) is fixed therefore scale matters. Opfcf delivery is disproportionate to market share. Cablecom is okay but driven by high analogue market share
- Pension? Cash payment? Deficit under Swiss law have 97% coverage and now 100% post Jan
- Cash tax - will be positive impact for next 2-3 years from impairment but clearly separate tax accounts
- Dividend policy remains same as if can finance from cashflow will continue to grow but will not pay from debt
- Dividend - Spectrum is the only reason for flat dividend, so don't want to push up net debt. After open to further dividend discussions.
- Swisscom only paying 11% of FCF in interest versus other Swiss operators who pay 40-65%
- Tax rate going forward still assume 21%
- Average market share is around 60% but Opfcf share is over 70%
- Increase in pension cost is CHF70m, driven by IAS19 (lower discount rate) - impacts EBITDA but non cash

Domestic mobile

- Domestic metered revenues (voice, sms data) is now only 43% versus 52% in 2008 but overall Swiss revenue has grown ie managing change through bundles
- SMS volumes, small decline of 1%, but metered volumes down 20% driven by structural changes. Although can capture this revenue again in bundles
- Data, metered volumes growing over 100% and bundled volumes up 60%

- Smartphone share in gross add is now 60% vs 48% in 2010 with SAC up CHF38m yoy
- Of total mobile devices sold in 2011 was 1.45mn with 0.88 smartphones or which 0.55 Apple
- Total smartphone penetration on Swisscom base is 32%
- Not subsidising tablets yet as would have to commit to volumes
- Lowering MTR has not impacted retail prices in general. MTR's are neutral as minutes terminating on Swisscom vs total on competitors is broadly equal. Swisscom is neutral on further cuts so won't be fighting for higher rates
- Aiming for 90% LTE coverage by 2016. Deal with Ericsson to swap out all sites to make one network architecture (will spend 330m capex to 2016 on sites)
- SMS volumes - impact of imessage, 67% of iphones has IOS 4 so through two thirds of the phenomenon
- Latest mobile network survey showed Sunrise worse than Orange in 2011
- Usage declines - all driven by 13-18 year olds who are down 25%. Small segment moving to social media. Bulk of the minute lost is in bundle so not losing revenues. Has stabilised but young quick to adopt
- Tariff phasing for bandwidth guarantee? Only at high end currently but will be more going forward in May

Domestic fixed

- Wireline traffic down 19% in 4Q
- Confident pricing strategy is right given changing industry dynamics and not lost market share in any main segment
- However bundle subscription revenues growing strongly +108m yoy in 4q so ex wholesale domestic revenue still grew by +11m
- Smaller cable companies do not encrypt digital feeds so upgrading analogue customers for free.
- Swisscom adding 40% of new market digital TV customers and goal for 1m is likely by 2014
- Fixed/mobile substitution - Think LTE being substitute for fixed broadband is NONSENSE. Would boost short customer numbers but risk long term ARPU upsell
- Geneva - homes passed 90% and other cities going well with FTTH
- Now over 2m homes covered with fibre and can offer over 100mbps and will be for next few years
- Street cabinet size decreasing so FTTC upgrade easier ie can drop box into manhole.

- Assume within 5 years, each person within a household will need equivalent of two HD streams ie multiple devices
- Horizon box from UPC - not too concerned and could be scale issue. Not sure why
- Fibre, homes connected? Not marketed aggressively, currently pilot but will commercialise from this May. CPE since last 18 months are fibre compatible

Fastweb

- Outlook - market share of 15-20% net adds, slightly higher EBITDA and margins, capex down slightly and positive FCF
- Good exit runrate out of 4Q with 60% sales growth
- Italian broadband market net adds down 60% yoy to 350k and got worse in 2H Fastweb share was 19% in 2011 versus 9% in 2010
- Fastweb has lowest churn versus Wind and others.
- Sky partnership going well done 71k gross adds (21% total)
- Wind and others being less aggressive out of 2011
- Fastweb bought 11% stake in Metroweb, will close in March and fastweb is currently a customer of Metroweb around Milan
- Fibre Italy - won't be significant further investment through metroweb and F2i (government vehicle) has got government funding so won't put more in when join.
- Italy, enterprise? Despite tough macro have opportunities and undercut TI on prices. Order book is increasing
- Growing in SME and sales up 50%
- Bad debt level in Oct 8.6% versus 30% in Jan 2010
- Activation costs down 70%
- 30% share market share for public administration contracts

Capex

- Swisscom capex per pop is CHF/yr172m versus 56 for other EU incumbents and over 2x on a per customer basis This enables premium to be charged
- Swiss consumers relatively sensitive to quality hence the higher investment. Most of price sensitive customers have already left to competitors. Need to keep up ie networks.
- Orange/Sunrise have limited capacity to invest given debt and Swisscom will aim to expand market share.
- Capex - need mix of technologies. 10% households or 400K FTTH so far and makes sense for dense areas. Aiming for 30% by 2015

Costs - Group

- Fastweb - Cash cost guidance (opex and capex) is to reduce by €120m in 2013 versus 2011
- Billing - fully merged fixed/mobile in 2007 so now on one CRM and converged billing. Key and ahead of other operators
- 2012 focus - redesigning self-care, quad play and migrating copper customers to all-ip. Therefore savings from switching of legacy platforms from 2013

Regulation

- Telecoms law - don't expect any change and if there was would be 2-3 yrs ie regulatory stability.
- Regulator assessing cost methodology for ULL (2013) and ducts (2014)
- Competition commission - utilities need guarantee on wholesale exclusivity. Have to offer dark fibre but this will impact utilities who have no retail or wholesale share
- Fibre co-operation with utilities are political reality as some utils wanted to invest. Ultimately save 40% of capex and would have been forced to have open access if Swisscom built alone
- ADSL case with comp commission - not provided for as have good case (worth CHF200m)

Spectrum

- Spectrum - currently only have one third of overall spectrum so upside from auctions as caps are set that could increase spectrum. Can more than double spectrum. Min price for all spectrum is CHF600m

Financing

- Refinancing - cost of debt low but fully financed so would have to buy back existing bonds.
- Most new shareholders in Swisscom are Swiss residential holders

M&A

- M&A in Italy - no update

Changes to estimates and valuation

Changes to estimates – EBITDA declines 1-2%

Following the 4Q11 results our EBITDA estimates decline c1-2% over the 2012-14 period. We have made limited changes to revenues and significantly increased our capex assumptions.

Figure 1: Swisscom: Changes to estimates (2012-14)

CHFm	2012	2013	2014
New Forecasts			
Revenues	11,396	11,615	11,904
EBITDA	4,396	4,408	4,492
Margin (%)	38.6	37.9	37.7
Depreciation, amortization and impairment	(1,866)	(1,925)	(1,969)
Operating income (EBIT)	2,530	2,482	2,523
Financial income and financial expense, net	(295)	(284)	(284)
Share of profit of investments in associates	30	30	30
Income before income tax expense (PBT)	2,265	2,228	2,268
Income tax expense	(476)	(468)	(476)
Income from continuing operations	1,789	1,760	1,792
Net income	1,789	1,760	1,792
Earnings per share (EPS) in CHF	34.5	34.0	34.6
DPS (CHF)	22.0	23.0	23.0
Group Capex	2,397	2,150	2,128
Capex/Sales (%)	21.0	18.5	17.9
Old Forecasts			
Revenues	11,403	11,591	11,827
EBITDA	4,491	4,488	4,555
Margin (%)	39	39	39
Depreciation, amortization and impairment	(1,843)	(1,885)	(1,947)
Operating income (EBIT)	2,648	2,603	2,608
Financial income and financial expense, net	(292)	(288)	(288)
Share of profit of investments in associates	26	26	26
Income before income tax expense (PBT)	2,382	2,341	2,346
Income tax expense	(500)	(492)	(493)
Income from continuing operations	1,882	1,850	1,854
Net income	1,882	1,850	1,854
Earnings per share (EPS) in CHF	36	36	37
DPS (CHF)	23	24	24
Group Capex	2,196	1,967	1,883
Change %			
Revenues	-0.1	0.2	0.6
EBITDA	-2.1	-1.8	-1.4
Margin (%)	-2.1	-2.0	-2.0
Depreciation, amortization and impairment	1.2	2.1	1.2
Operating income (EBIT)	-4.5	-4.6	-3.3
Financial income and financial expense, net	1.0	-1.1	-1.1
Share of profit of investments in associates	15.4	15.4	15.4
Income before income tax expense (PBT)	-4.9	-4.8	-3.3
Income tax expense	-4.9	-4.8	-3.3
Income from continuing operations	-4.9	-4.8	-3.3
Net income	-4.9	-4.8	-3.3
Earnings per share (EPS) in CHF	-5.0	-6.0	-7.1
DPS (CHF)	-4.3	-2.8	-4.9
Group Capex	9.2	9.3	13.0

Source: Barclays Capital, company data.

Valuation – PT changed to CHF 420

Our DCF and multiples based Sum-of-the-parts price target has changed to CHF 420/share from CHF 450/share.

Figure 2: Swisscom: Sum of the parts valuation

CHFm	Method	EV (CHFm)	Stake (%)	Value to Swisscom (CHFm)	% of Total	EV/OpFCF (12)	EV/EBITDA (12)
Swisscom Switzerland	DCF	29,492	100.0	29,492	93.5	15.9	8.1
Other operating segments	Multiple	1,846	100.0	1,846	5.9	10.0	5.6
Group Headquarters	Multiple	(1,844)	100.0	(1,844)	-5.8	14.0	14.4
Total Switzerland		29,494	100.0	29,494	93	15.4	7.6
Fastweb	DCF	2,062	100.0	2,062	6.5	21.6	3.7
Total EV		29,494		31,557	100.0	15.4	7.6
Net Cash/(Debt) - Dec 2012E				(7,868)			
Net Debt Adjustments				(1,977)			
Equity Value				21,711			
Number of Shares (Dec 12)				51.8			
Price Target				420.0			

Source: Barclays Capital, company data.

EUROPEAN COMPS

Figure 3: European Comps

	Ccy	Share Price	Mkt Cap	P/E			EV/EBITDA			EV/OpFCF			FCF Yield (Normalized)			Dividend Yield		
				Now	(EUR b)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E
Incumbent - EU																		
Median			15.3	11.3x	10.1x	8.9x	4.5x	4.8x	4.8x	8.1x	8.3x	8.1x	10.2%	11.3%	11.9%	7.8%	8.8%	8.9%
Belgacom	EUR	23.5	7.4	9.7x	9.8x	10.2x	4.9x	5.0x	5.1x	7.9x	8.3x	8.6x	10.2%	8.9%	8.7%	9.3%	9.3%	9.1%
BT Group	GBP	2.15	19.8	9.0x	7.9x	7.5x	4.5x	4.4x	4.4x	8.0x	7.7x	7.6x	6.5%	13.0%	12.2%	3.8%	5.7%	6.7%
Deutsche Telekom	EUR	8.9	38.9	10.9x	13.8x	11.7x	4.1x	4.1x	4.2x	7.8x	7.9x	8.1x	12.8%	13.8%	12.7%	7.8%	7.8%	7.8%
Elisa	EUR	16.9	2.6	13.0x	12.7x	12.3x	6.9x	6.9x	6.8x	11.0x	11.0x	10.3x	7.1%	7.0%	7.4%	7.7%	8.5%	8.1%
France Telecom	EUR	11.3	30.1	7.4x	7.7x	7.7x	3.9x	4.1x	4.2x	6.7x	8.3x	7.4x	14.7%	11.2%	11.7%	12.4%	12.4%	8.8%
KPN	EUR	7.9	11.7	7.5x	11.1x	11.4x	4.3x	4.8x	4.8x	7.2x	9.5x	8.3x	17.8%	12.9%	16.1%	10.8%	11.4%	11.4%
OTE	EUR	2.9	1.4	6.1x	4.9x	4.6x	3.3x	3.4x	3.5x	6.3x	5.8x	6.0x	27.9%	38.8%	41.8%	4.1%	4.1%	4.1%
Portugal Telecom	EUR	4.3	3.8	8.3x	10.2x	7.7x	4.3x	4.0x	4.1x	9.7x	8.3x	8.1x	12.1%	15.1%	15.4%	30.2%	15.1%	15.5%
Swisscom	CHF	368	15.8	27.9x	10.6x	10.8x	6.3x	6.6x	6.6x	11.6x	14.5x	12.8x	8.2%	7.7%	9.2%	6.0%	6.0%	6.3%
TDC	DKK	43.3	4.8	12.3x	11.2x	10.1x	5.1x	5.1x	5.1x	7.7x	7.4x	7.4x	10.2%	13.0%	13.7%	10.1%	10.7%	11.3%
Telecom Italia (blend)	EUR	0.76	14.8	-	6.5x	6.2x	4.2x	4.3x	4.4x	8.0x	7.7x	7.4x	19.5%	19.1%	17.2%	9.2%	10.1%	11.6%
Telecom Italia (ordinary)	EUR	0.8	-	-	6.8x	6.5x	4.3x	4.4x	4.5x	8.1x	7.9x	7.5x	18.5%	18.2%	16.3%	8.3%	9.6%	11.0%
Telecom Italia (saver)	EUR	0.67	-	-	5.6x	5.3x	4.1x	4.1x	4.2x	7.7x	7.5x	7.0x	22.1%	21.6%	19.7%	11.6%	13.0%	14.8%
Telefonica	EUR	13.09	59.0	11.9x	7.9x	7.3x	5.7x	4.9x	4.8x	10.7x	8.4x	8.1x	13.8%	11.3%	11.9%	9.9%	9.9%	9.9%
Telekom Austria	EUR	8.73	3.9	14.7x	15.0x	14.0x	5.3x	5.6x	5.6x	10.2x	14.0x	11.2x	3.5%	10.4%	10.2%	4.4%	4.4%	5.8%
Telenor	NOK	97.65	20.7	24.5x	10.1x	8.8x	6.7x	5.8x	5.4x	10.9x	8.9x	7.7x	9.5%	9.0%	10.5%	5.1%	6.9%	7.9%
TeliaSonera	SEK	46.5	22.9	11.0x	9.6x	8.9x	5.9x	5.7x	5.5x	11.1x	9.1x	8.6x	3.7%	6.8%	7.3%	6.1%	6.9%	7.5%
Altnets/Other - EU																		
Median			1.9	10.8x	10.9x	11.0x	5.4x	5.5x	5.2x	10.0x	11.0x	9.0x	8.3%	7.3%	8.8%	5.9%	6.8%	9.3%
C&W Communications	GBP	0.37	1.1	9.3x	8.4x	7.3x	5.2x	5.0x	4.8x	9.3x	8.3x	7.7x	2.6%	8.5%	11.6%	6.8%	6.8%	10.2%
Iliad	EUR	96.3	5.2	18.7x	29.2x	24.5x	7.8x	8.3x	7.3x	-	nm	23.1x	-	-	-	0.5%	0.4%	0.4%
Inmarsat	GBP	4.62	2.7	8.9x	9.4x	12.4x	5.4x	5.6x	6.6x	13.1x	16.5x	17.6x	7.8%	0.8%	3.1%	5.7%	6.2%	6.6%
Jazztel	EUR	4.42	1.1	31.3x	16.5x	13.3x	7.6x	5.9x	5.1x	20.1x	12.5x	19.9x	4.9%	4.2%	0.3%	-	-	-
Kabel Deutschland	EUR	39.7	3.5	33.3x	18.4x	15.1x	7.9x	7.2x	6.9x	14.6x	12.4x	11.5x	2.4%	5.2%	7.9%	3.8%	7.6%	12.6%
Mobistar	EUR	36.4	2.2	9.9x	10.9x	10.8x	4.9x	5.2x	5.2x	7.9x	8.1x	8.1x	11.1%	9.0%	9.8%	10.2%	9.2%	9.3%
Sonaecom	EUR	1.29	0.5	7.2x	10.9x	11.0x	3.5x	3.5x	3.5x	7.7x	49.5x	7.2x	9.0%	-	17.3%	3.9%	3.9%	3.9%
TalkTalk Group	GBP	1.4	1.6	8.6x	7.7x	6.5x	5.0x	4.7x	4.4x	7.4x	6.8x	6.3x	8.6%	13.1%	17.7%	6.1%	6.8%	9.6%
Telenet	EUR	28.6	3.2	-	21.9x	18.3x	8.3x	7.9x	7.3x	30.9x	12.9x	11.6x	8.5%	6.9%	6.8%	15.7%	15.7%	14.0%
Tele2	SEK	126.7	6.4	11.8x	10.8x	9.6x	6.0x	5.6x	5.2x	10.3x	11.0x	9.3x	7.0%	6.4%	7.9%	10.3%	10.3%	10.3%
Virgin Media	GBP	16.42	5.8	nm	17.2x	10.5x	5.7x	5.5x	5.2x	9.7x	10.5x	9.0x	9.6%	7.7%	10.6%	1.0%	1.0%	1.0%
ZON Multimedia	EUR	2.59	0.8	27.3x	23.1x	16.4x	4.7x	4.6x	4.4x	14.3x	9.3x	8.3x	8.3%	13.1%	15.7%	6.2%	6.2%	7.7%
Datacentres																		
Median			1.6	33.7x	27.9x	32.3x	11.5x	9.7x	8.5x	nm	nm	nm	nm	NM	0.6%	nm	nm	nm
Equinix	USD	128.9	5.3	nm	40.9x	32.3x	11.5x	9.7x	8.5x	nm	nm	nm	nm	-	0.4%	nm	nm	nm
InterXion	USD	14.8	0.8	33.7x	27.9x	43.9x	9.1x	7.7x	5.9x	nm	-	nm	nm	nm	nm	nm	nm	nm
Telecity	GBP	6.8	1.6	27.4x	22.6x	17.9x	14.0x	11.4x	9.6x	nm	nm	19.6x	nm	-	0.9%	nm	0.9%	1.7%

EMEA																		
Median			11.7	12.7x	10.5x	9.6x	5.3x	4.9x	4.6x	10.2x	8.6x	8.1x	7.5%	8.9%	9.9%	6.1%	7.8%	8.8%
Mobinil	EGP	151.7	1.9	-	nm	29.5x	6.5x	6.8x	6.3x	10.6x	11.2x	9.7x	7.4%	6.3%	7.0%	-	2.0%	2.5%
MTN	ZAR	135	24.9	12.4x	10.4x	9.6x	5.3x	4.9x	4.6x	8.2x	7.6x	6.6x	10.1%	9.0%	12.5%	5.6%	7.2%	8.8%
MTS	USD	17.3	13.0	12.7x	12.2x	11.4x	4.8x	4.8x	4.5x	13.1x	11.6x	8.1x	4.9%	5.5%	10.1%	6.1%	6.4%	7.0%
Orascom	USD	3.5	2.8	5.0x	9.7x	8.0x	3.6x	3.5x	3.3x	5.4x	5.0x	5.6x	13.9%	8.9%	2.5%	-	-	-
Telecom Egypt	EGP	17.0	3.7	11.2x	12.1x	12.4x	6.3x	6.6x	6.8x	7.5x	8.6x	9.0x	7.2%	8.3%	7.7%	9.4%	9.4%	9.4%
Telkom	ZAR	27.45	1.4	7.4x	6.0x	6.0x	2.5x	2.4x	2.4x	5.9x	6.6x	5.2x	21.1%	19.1%	26.2%	4.8%	8.3%	13.3%
Turkcell	TRY	9.4	8.9	20.1x	10.6x	10.0x	5.5x	5.1x	4.9x	10.7x	9.4x	9.5x	5.1%	5.1%	5.2%	-	-	-
Turk Telekom	TRY	7.8	11.7	13.2x	10.6x	10.0x	6.4x	6.2x	6.0x	11.7x	11.4x	9.9x	6.7%	6.8%	8.9%	6.9%	8.7%	9.2%
VIP	USD	11.3	13.9	12.8x	9.8x	8.8x	5.3x	4.7x	4.6x	10.2x	8.0x	7.7x	9.1%	13.1%	14.2%	7.1%	7.1%	7.1%
Vodacom	ZAR	103.5	15.0	14.3x	12.8x	12.2x	7.1x	6.7x	6.4x	10.6x	10.1x	9.6x	6.8%	6.8%	7.4%	6.0%	7.8%	8.2%

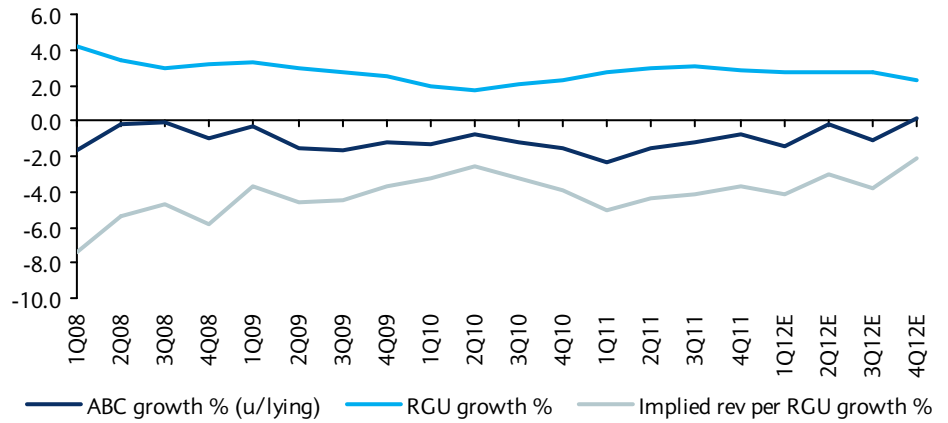
Source: Barclays Capital, Reuters; prices as of close 14th February

Switzerland wireline: Reaping the reward of bundles

- Swisscom's ABC (access, broadband and calls) revenue growth remains strong in a European context (4Q11: -0.8%, 3Q11: -1.2%; 2Q11 -1.5%; 1Q11 -2.3%). RGU growth also remains impressive (4Q11: 2.9%, 3Q11 +3.0%; 2Q11 +2.9%; 1Q11 2.8%). TV continues to be the biggest driver of RGU growth and Swisscom is now the digital TV leader in Switzerland.
- Traditional line losses continued to improve at Swisscom despite pick up in cable net adds at Cablecom (-26k in 3Q11; -32k 2Q11; -32k in 1Q11) which continues to only represent c1% of the total line base for Swisscom. From a segmental basis ABC revenue trends improve within residential and corporate but worsened within the SME division.
- Overall ULL/wholesale net adds remain low (-2k on a net basis) as Sunrise focuses on the migration of customers from bitstream to ULL rather than aggressively adding new broadband customers.
- **Sunrise has launched its IPTV service.** This has been well flagged by the company on recent calls. What is encouraging is the price at CHF125/month for triple play (inc 20Mbps broadband, free fixed calls and TV). This compares to Swisscom triple play (Vivo Casa) at CHF125 including 20Mbps. Swisscom has over 25% market share in TV in Switzerland so this is a good pricing datapoint in our view going forward.

Fixed trends at Swisscom remain robust

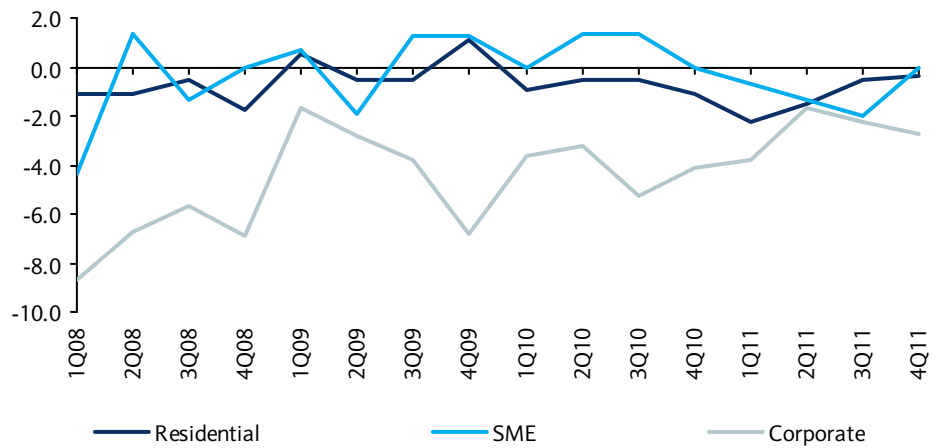
Figure 4: RGUs, ARPU and consumer (ABC) revenue growth (%) - Swisscom



Source: Barclays Capital, company data

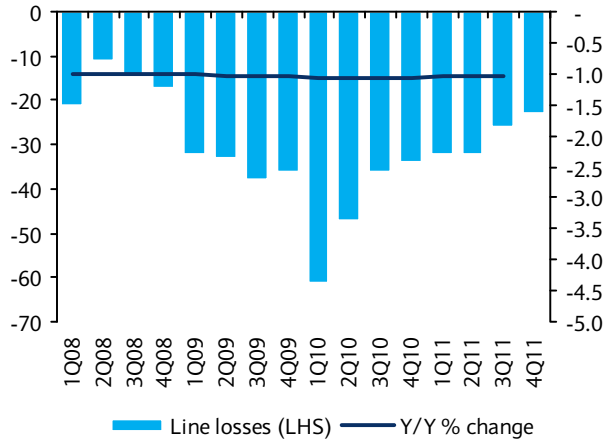
Revenue streams converging in terms of ABC growth

Figure 5: ABC revenue growth by segment (%)



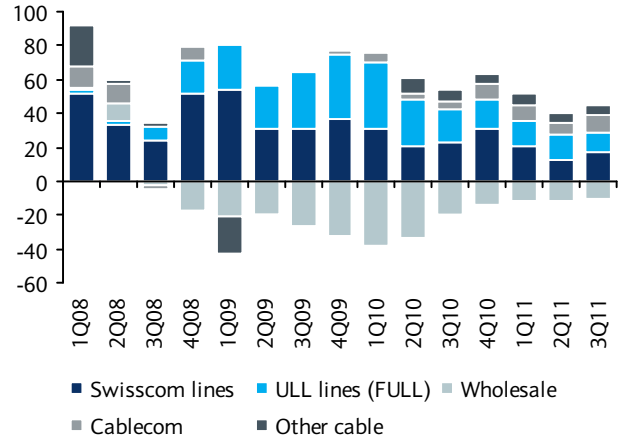
Source: Barclays Capital, company data

Figure 6: Swisscom access line loss trends (000s)



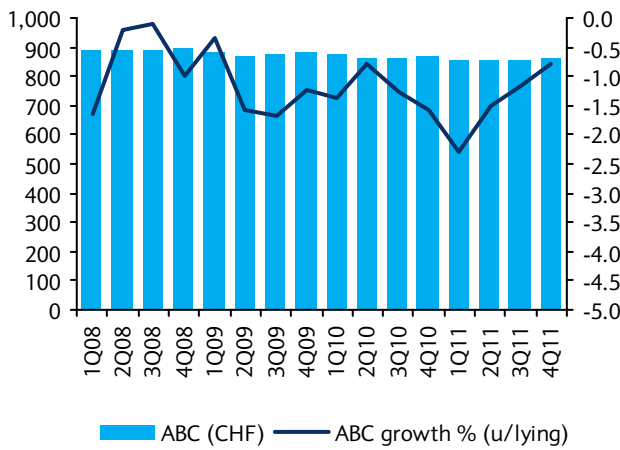
Source: Company data

Figure 7: Broadband net adds (000s) - Switzerland



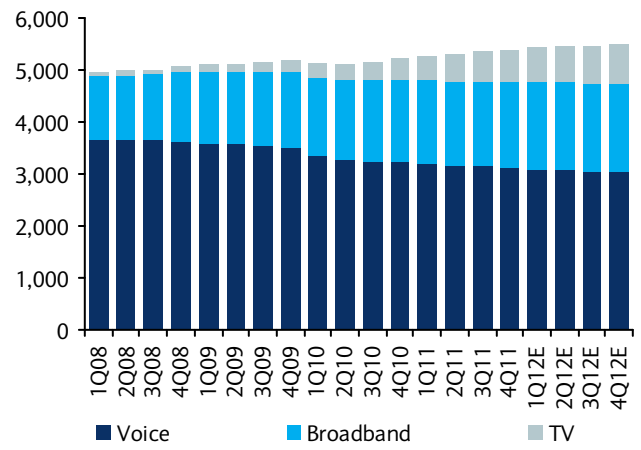
Source: Barclays Capital, company data

Figure 8: Swisscom ABC revenue trends



Source: Barclays Capital, company data

Figure 9: Swisscom RGUs (000s)



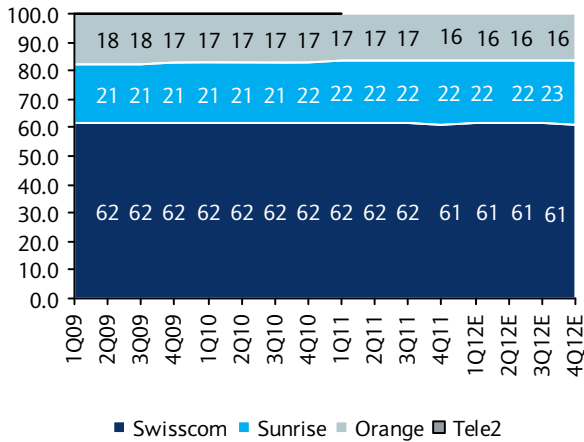
Source: Company data

Switzerland wireless: Market structure still sound

The recent change in ownership of Orange Switzerland to private equity is positive in our view for the market structure of the Swiss wireless market. In 4Q reported trends improved as the MTR drag slowed. Swisscom continues to report broadly flat underlying mobile service revenue growth. The repricing of certain data tariffs in 1H11 continues to be the main driver of slower data revenue growth as absolute data usage and smartphone sales remain strong.

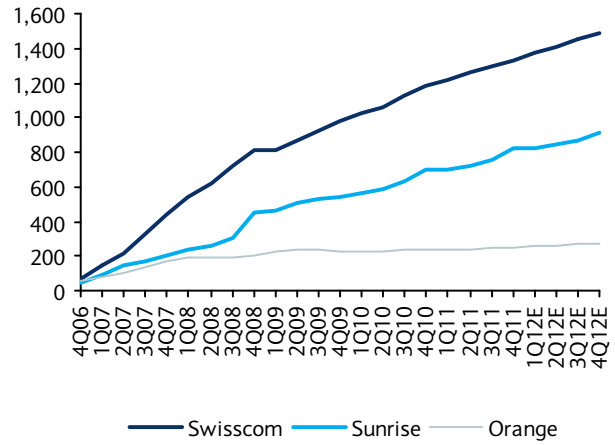
- All operators continue to be negatively impacted by MTR cuts and the removal of asymmetry. Swisscom reported service revenue growth of -1.6% in 4Q11 (-2.7% 3Q11, -0.7% in 2Q11; 1Q11 +1.3%) although on an underlying basis service revenue growth is flat (4Q11 -0.3%, 3Q11 0.0%, 2Q11 +2.2%; 1Q11 +4.4%). Reported mobile service revenue growth at Orange improved to -2.9% in 3Q11 (2Q11 -5.3%; 1Q11 -7.3%; 4Q10 -5.2%) but we estimate were broadly flat on an underlying basis. In 3Q11 Sunrise reported service revenue growth (3Q11 +5.0%, 2Q11+6.4%; 1Q11: +3.6%) but on an underlying basis we estimate this was c13%.
- We estimate Swisscom's outbound yield was CHFc41.7 in 4Q11 (CHFc41.1in 4Q10) which is encouraging and highlights the stable market and pricing power of Swisscom. Although we note usage growth slowed from the previous quarter.
- Mobile data growth (4Q11 -5%, 3Q11 -4%; 2Q11 +11%) slowed at Swisscom driven by both domestic/roaming data re-pricing plus a slowdown in SMS volume growth. Overall we estimate voice revenue was -2% in 3Q11 (2Q11 -5%; 1Q11 0%; 4Q10 -5%) as MTR cuts impact, offset by continued subscriber growth plus stable pricing. Comparatively we estimate voice revenue declines at Orange were -11% (2Q11: -10%; 1Q11 -12%), although data growth was +9% in 3Q11 (2Q11 +15%; 1Q11 +19%; 4Q10 +16%).
- Swisscom added 34k postpaid net adds in 4Q11. Orange net adds recovered in 3Q11 to +19k. We note Sunrise added 31k contract subscribers in 2Q11 including +22k contract net adds.

Figure 10: Subscriber market share Switzerland (%)



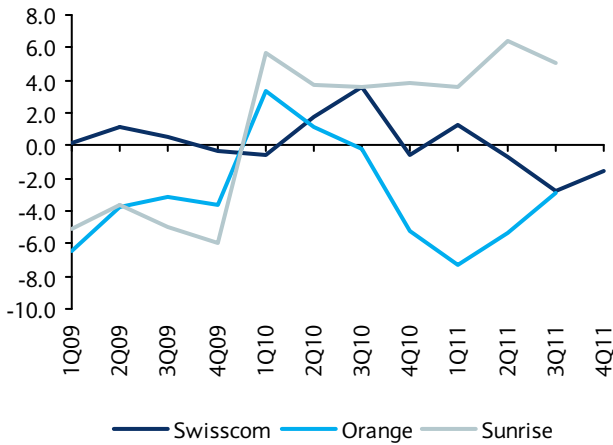
Source: Company data, Barclays Capital

Figure 11: Swiss cumulative net adds ('000's)



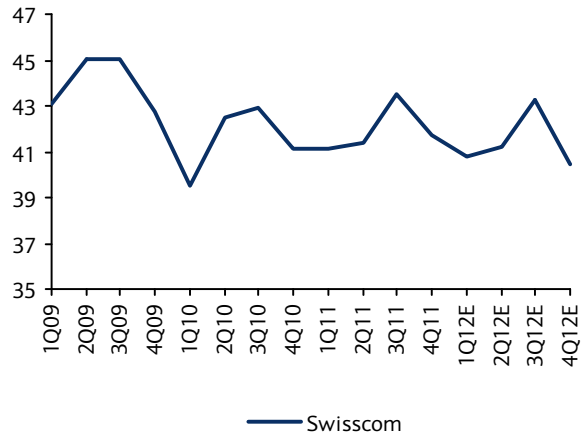
Source: Company data, Barclays Capital

Figure 12: Swiss service revenue growth (%)



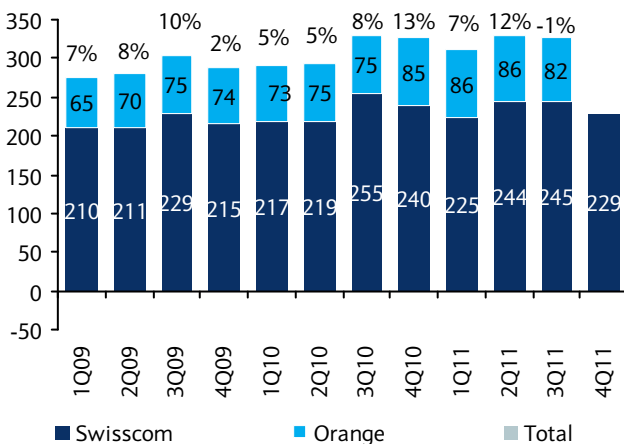
Source: Company data, Barclays Capital

Figure 13: Swisscom outbound yield (cCHF)



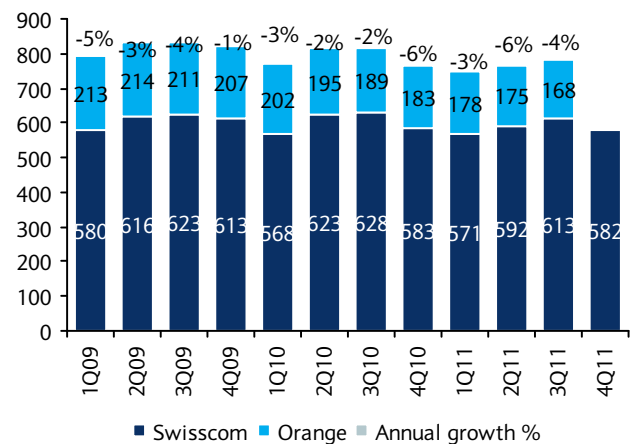
Source: Company data, Barclays Capital

Figure 14: Swiss mobile data revenue (CHFm)



Source: Company data, Barclays Capital

Figure 15: Swiss mobile voice revenue (CHFm)



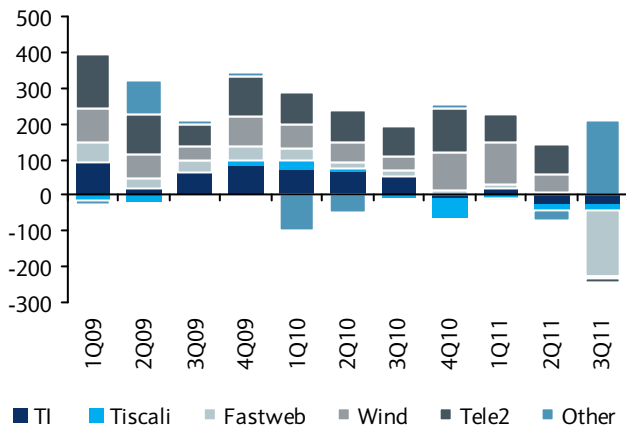
Source: Company data, Barclays Capital

Italian broadband – Can competition ease?

Competition in the Italian broadband market remains fierce as DSL players continue to aggressively bundle broadband deals.

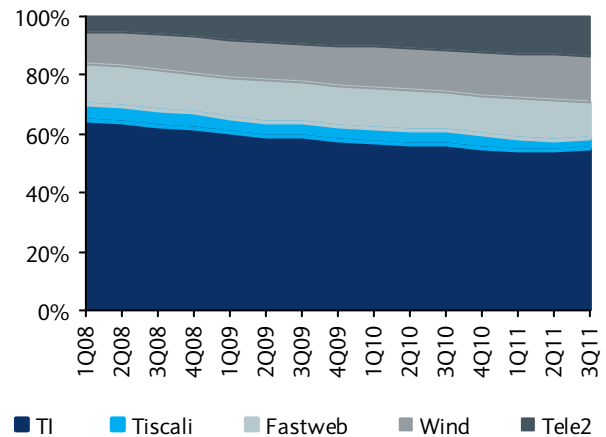
- Fastweb posted encouraging net adds of 35k in 4Q11 following a clean up of the base in 3Q11 (197k) relating to a regulatory ruling. On an underlying basis net broadband adds in 3Q11 were +16k (2Q11 +8k) and we note Fastweb added 34k customers onto its deal with Sky Italia (now a total of 71k customers).
- Despite this there clearly remain issues in repricing the existing base, particularly high ARPU customers. Fastweb’s revenue in local currency declined by 4.4% in 4Q11 - an improvement on previous quarter (3Q11: -11.0%).
- Within the mix, in 4Q11, consumer revenue trends improved to 14.5% YoY local currency growth due to a low base effect (3Q11: 3.3%, 2Q11: 9.0%). Executive segment revenue trends also improved in the quarter (4Q11: -5.4%, 3Q11: -10.7%, 2Q11: -3.3%).

Figure 16: Italian broadband net adds (000's)



Source: Company data, Barclays Capital

Figure 17: Italian broadband market share (%)



Source: Company data, Barclays Capital

Spectrum – Everything back in the pot

Switzerland – One big auction but proceeds likely to be low

- All Swiss mobile spectrum is likely to be auctioned in 1H12 per the recent ComCom announcement. The existing GSM licences expire in 2013 (1800MHz and 900MHz) and the UMTS licences in 2016. The regulator has initially indicated that it will auction all 900MHz, 1800MHz, 2100MHz, 2600MHz and any digital dividend ie 800MHz as part of the same tender for use until 2028.
- ComCom has determined the following spectrum caps of 2x30MHz below 1GHz, 2x20MHz in 900MHz, 2x30MHz in 2.1Ghz and if an operator has 2x15MHz or more in 900 then a max 2x30MHz in 1.8GHz.
- Based on the analysis below, our base case assumes that if an operator acquires the maximum amount of spectrum per above then the total cost is likely to be cCHF200m based on the minimum prices set by the regulator.

Figure 18: Existing spectrum holdings

Current spectrum holdings					
MHz, unpaired	Swisscom	Orange	Sunrise	In & Phone	Total
900 MHz	27.2	6.4	34.0		68
1800 MHz	30.4	58.8	27.2	29.2	146
2100 MHz	49.6	34.6	34.6		119
Total now	107	100	96	29	332
Ownership					
%	Swisscom	Orange	Sunrise	Other	Total
< 1 GHz	40%	9%	50%	0%	100%
> 1 GHz, < 2 GHz	21%	40%	19%	20%	100%
> 2 GHz	42%	29%	29%	0%	100%
Total	32%	30%	29%	9%	100%

Source: Barclays Capital

Figure 19: Base case spectrum scenario

Spectrum to be auctioned					
MHz, unpaired	Swisscom	Orange	Sunrise	Other	Total
800 MHz	30	20	10	0	60
900 MHz	30	10	30	0	70
1800 MHz	60	60	50	0	170
2100 MHz	40	40	40	0	120
2600 MHz	50	50	50	35	185
Total	210	180	180	35	605
Prices (€ per MHz per Pop)					
800 MHz	0.21	0.21	0.21	0.21	0.21
900 MHz	0.21	0.21	0.21	0.21	0.21
1800 MHz	0.07	0.07	0.07	0.07	0.07
2100 MHz	0.05	0.05	0.05	0.05	0.05
2600 MHz	0.08	0.08	0.08	0.08	0.08
Total	0.11	0.09	0.10	0.08	0.10
Costs, €m					
800 MHz	49	33	16	0	98
900 MHz	49	16	49	0	114
1800 MHz	33	33	27	0	92
2100 MHz	16	16	16	0	49
2600 MHz	32	32	32	22	117
Total	178	129	140	22	470
New holdings					
MHz, unpaired	Swisscom	Orange	Sunrise	4	Total
800 MHz	30	20	10	0	60
900 MHz	30	10	30	0	70
1800 MHz	60	60	50	0	170
2100 MHz	40	40	40	0	120
2600 MHz	50	50	50	35	185
Total	210	180	180	35	605
New holdings, summary					
MHz, unpaired	Swisscom	Orange	Sunrise	4	Total
Below 1 GHz	60	30	40	0	130
at c2GHz	100	100	90	0	290
Beyond 2GHz	50	50	50	35	185
Total now	210	180	180	35	605
%					
Below 1 GHz					
at c2GHz	46%	23%	31%	0%	100%
Beyond 2GHz	34%	34%	31%	0%	100%
Total	27%	27%	27%	19%	100%

Source: ComCom, Barclays Capital

4Q11 revisited: Capex in focus, underlying trends strong

In contrast to other European Telco's, Swisscom continues to grow its dividend and drive investment to protect future revenues. Given the relatively low competitive intensity, key trends remain stable. Guidance for 2012 is broadly in line with consensus for revenues/EBITDA but includes a capex increase in the domestic business to support further fibre investment. We believe Swisscom offers a low risk and well covered dividend.

Swisscom's domestic performance remains resilient. Swisscom recorded domestic revenue growth of -0.5% (3Q11 -2.8%, 2Q11 -1.3%, 1Q11 -0.8%) coupled with a margin of 41.5%, a 40bps increase YoY (4Q10: 41.1%). In terms of RGU growth, broadband net adds of +26k (3Q11 +17k, 2Q11 +13k; 1Q11 +21k) and Swisscom TV adds of +52k (3Q11 +44k, 2Q11 +43k; 1Q11 +48k) continued to more than offset traditional line loss of 23k (3Q11 26k; 2Q11 32k; 1Q11 31k), implying Swisscom continues to win market share, particularly with limited ULL/wholesale gains and likely cable adds.

- Mobile, service revenue stable. Swisscom reported service revenue growth of -1.6% (3Q11 -2.7%, 2Q11 -0.7%, 1Q11 +1.3%). On an underlying basis, we estimate Swisscom's service revenue growth was -0.3% (3Q11+0.0%; 2Q11 +2.2%; 1Q11 +4.3%). Contract adds remained strong at 34k (3Q11 +16k).
- Fastweb remains under pressure. With the Fastweb impairment already pre-announced, focus is back on underlying trends which remained tough. Fastweb reported revenues of EUR450m (Barcap EUR430m) representing -5% local ccy growth (3Q11 -11%). From an EBITDA perspective EUR99m was light (Barcap EUR112m). The Fastweb performance continues to be driven by -7% residential revenue growth offset by more resilient SME/Corporate. Swisscom now has specific guidance for Fastweb of EUR1.6bn revenue (ex transit) and EBITDA to rise slightly coupled with lower capex, ie leading to FCF growth.
- Guidance for FY12. In terms of guidance, revenue for FY12 is expected to be CHF11.4bn in line with Barcap and EBITDA of CHF4.4bn is a touch behind consensus/Barcap at CHF4.5bn, but includes a CHF70m increase in non-cash pension costs. Dividend guidance is CHF22 ie at least in line with prior year. Capex guidance is now up to CHF2.2bn with the increase primarily driven by domestic capex increase of CHF100m.
- Swisscom has reported 4Q11 results. Revenue of CHF2,929m is 1% ahead (Consensus CHF2,912m, Barcap CHF2,893m); but EBITDA CHF1,064m c2% behind (consensus CHF1,090m, Barcap CHF1,099m) and net income CHF-835M (consensus -811m, barcap -855m) driven by impairment in Fastweb, which had already been announced.

Barclays Capital Estimates

Figure 20: Swisscom: Forecast P&L account

CHFm	2011	2012	2013	2014	2015	2016
Revenues	11,467	11,396	11,615	11,904	12,189	12,459
EBITDA	4,584	4,396	4,408	4,492	4,554	4,597
Margin (%)	40.0	38.6	37.9	37.7	37.4	36.9
Depreciation, amortization and impairment	(3,458)	(1,866)	(1,925)	(1,969)	(1,992)	(2,004)
Operating income (EBIT)	1,126	2,530	2,482	2,523	2,561	2,593
Financial income and financial expense, net	(311)	(295)	(284)	(284)	(262)	(238)
Share of profit of investments in associates	30	30	30	30	30	30
Income before income tax expense (PBT)	845	2,265	2,228	2,268	2,329	2,386
Income tax expense	(151)	(476)	(468)	(476)	(489)	(501)
Income from continuing operations	694	1,789	1,760	1,792	1,840	1,885
Net income	694	1,789	1,760	1,792	1,840	1,885
Net income attributable to minority interests	11	1	1	1	1	1
Net income attributable to equity holders of Swisscom AG	683	1,788	1,759	1,791	1,839	1,884
Clean net income	683	1,788	1,759	1,791	1,839	1,884

Source: Company data, Barclays Capital.

Figure 21: Swisscom: Forecast cash flow statement

CHFm	2011	2012	2013	2014	2015	2016
Operating income (EBITDA)	4,584	4,396	4,408	4,492	4,554	4,597
Changes in op. assets and liabilities/receipts from op. activities	(451)	(10)	200	100	(50)	(50)
Income taxes paid	(182)	(143)	(452)	(444)	(452)	(465)
Cash flows provided by operating activities	3,951	4,242	4,156	4,147	4,051	4,083
Capital expenditure	(2,095)	(2,397)	(2,150)	(2,128)	(2,010)	(1,902)
Proceeds from sale of assets	37	-	-	-	-	-
Acquisition of shares in group companies	(92)	-	-	-	-	-
Other cash flows from investing activities	113	30	30	30	30	30
Cash flows used in investing activities	(2,037)	(2,367)	(2,120)	(2,098)	(1,980)	(1,872)
Issuance and repayment of financial liabilities, net	(723)	-	-	-	-	-
Dividends paid to equity holders of Swisscom	(1,088)	(1,132)	(1,132)	(1,184)	(1,184)	(1,188)
Dividends paid to minority interests of Swisscom	(7)	(7)	(7)	(8)	(8)	(8)
Other cash flow from financing activities, net	(262)	(295)	(284)	(284)	(262)	(238)
Buyback	-	-	-	-	-	(735)
Cash flows from financing activities	(2,080)	(1,435)	(1,424)	(1,476)	(1,453)	(2,168)
Change in cash and cash equivalents - continuing ops	(166)	441	612	574	618	42
Change in cash and cash equivalents	(166)	441	612	574	618	42
Cash and cash equivalents at beginning of year	483	314	755	1,366	1,940	2,558
Currency translation	(3)	-	-	-	-	-
Cash and cash equivalents at end of period	314	755	1,366	1,940	2,558	2,600

Source: Company data, Barclays Capital.

Figure 22: Swisscom: Forecast Balance Sheet

CHF	2011	2012	2013	2014	2015	2016
Assets						
Cash and cash equivalents	314	755	1,366	1,940	2,558	2,600
Other financial assets	73	73	73	73	73	73
Trade and other receivables	2,978	2,978	2,978	2,978	2,978	2,978
PPE	8,222	8,753	8,978	9,136	9,153	9,052
Goodwill	4,664	4,664	4,664	4,664	4,664	4,664
Other intangible assets	1,879	1,879	1,879	1,879	1,879	1,879
Investments in associates	233	233	233	233	233	233
Other current and non-current assets	1,087	1,087	1,087	1,087	1,087	1,087
Total assets	19,450	20,422	21,258	21,990	22,626	22,566
Liabilities and equity						
Financial liabilities	8,831	8,831	8,831	8,831	8,831	8,831
Trade and other payables	2,190	2,180	2,380	2,480	2,430	2,380
Defined benefit obligation	1,977	1,977	1,977	1,977	1,977	1,977
Provisions	903	903	903	903	903	903
Other current and non-current liabilities	1,253	1,585	1,601	1,633	1,670	1,706
Total liabilities	15,154	15,476	15,692	15,824	15,811	15,797
Equity attributable to equity holders	4,272	4,928	5,555	6,161	6,817	6,777
Minorities	24	18	11	5	(2)	(8)
Total equity	4,296	4,946	5,566	6,166	6,815	6,769
<i>Equity ratio at end of period</i>	<i>22.1</i>	<i>24.2</i>	<i>26.2</i>	<i>28.0</i>	<i>30.1</i>	<i>30.0</i>
Total liabilities and equity	19,450	20,422	21,258	21,990	22,626	22,566

Source: Company data, Barclays Capital.

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Primary Stocks (Ticker, Date, Price)

Swisscom (SCMN.VX, 14-Feb-2012, CHF 367.60), 1-Overweight/3-Negative

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1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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European Telecom Services

Belgacom (BCOM.BR)

BT Group PLC (BT.L)

Cable & Wireless Communications PLC (CWC.L)

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Jazztel Plc (JAZ.MC)	Kabel Deutschland (KD8Gn.DE)	KPN (KPN.AS)
Mobistar (MSTAR.BR)	OTE (OTEr.AT)	Portugal Telecom SGPS SA (PTC.LS)
Sonaecom SGPS SA (SNC.LS)	Swisscom (SCMN.VX)	TalkTalk Telecom Group (TALK.L)
TDC (TDC.CO)	Tele2 AB (TEL2b.ST)	TeleCity Group Plc (TCY.L)
Telecom Italia SpA (TLIT.MI)	Telecom Italia-RSP (TLITn.MI)	Telefónica SA (TEF.MC)
Telekom Austria (TELA.VI)	Telenet Group Holding NV (TNET.BR)	Telenor ASA (TEL.OL)
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Zon Multimedia (ZON.LS)		

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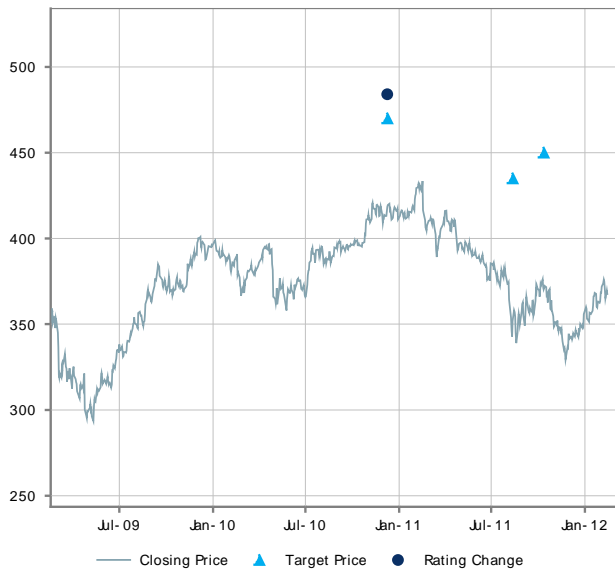
Swisscom (SCMN VX / SCMN.VX)
CHF 367.60 (14-Feb-2012)

Stock Rating
1-OVERWEIGHT

Sector View
3-NEGATIVE

Rating and Price Target Chart - CHF (as of 14-Feb-2012)

Currency=CHF



Date	Closing Price	Rating	Price Target
12-Oct-2011	370.30		450.00
12-Aug-2011	351.80		435.00
09-Dec-2010	418.50	1-Overweight	470.00

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