

Stock Market Review



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Go plc seeks return to profitable position from local operations

Beneficial impact of Forthnet likely in the medium-term

Shortly after the acquisition of a majority shareholding by Dubai-based Emirates International Telecommunications in May 2006, the incumbent telecoms company embarked on a wide-ranging restructuring exercise. This commenced with the total rebranding exercise of the group and the change in name to Go plc, coupled with a strict focus on improving customer experience.

Shortly afterwards, the group acquired the DTTV operator Multiplus Ltd and became the first local quadruple play operator offering all four telecoms services: fixed line, mobile, internet and TV.

However, the toughest decision taken by Go's board of directors in recent years was probably the one related to the acquisition of a sizable shareholding in an overseas telecoms company. Go had accumulated a cash pile over the years and rather than distributing this to shareholders, Go decided to invest this overseas together with its majority shareholder. It selected the Greek market due to the low penetration rate in broadband in Greece.

Currently Go and EIT jointly own a 37.1 per cent stake in Forthnet, the largest broadband and TV provider in Greece. Go has to date invested €110 million and although this investment has so far failed to yield a profitable outcome, Go's directors recently reaffirmed their confidence that Forthnet should start making positive contributions to the group results in the medium term.

This overseas investment was deemed appropriate at the time due to the increasingly competitive nature of the local telecoms industry. This is very evident in the 2009 full-year results published by Go last week. The group suffered a 4.5 per cent decline in turnover to €123.7 million as it was negatively affected by the international economic climate, the increasingly competitive environment and by the impact of regulation on certain services mainly roaming and leased lines.

However, although overall turnover declined, Go managed to increase the number of customer connections with the group registering growth in its broadband, TV and mobile telephone client base. As at December 31, 2009, the group's total customer base amounted to 480,000 (an increase of 22,000 customers over 2008). This is a significant feat for an incumbent telecoms company, especially in the light of the highly aggressive marketing



campaigns by its main competitors and is a positive signal for the coming years. The increase in the number of customers was mainly as a result of the highly successful Home Pack offer where customers can opt to register for various services at an advantageous rate. The high take up for these bundled services enabled the group to register strong rates of growth in TV as well as broadband. Go recently claimed that it is also aiming to become the market leader in the broadband market following the recent consolidation in this sector with the acquisition by Go of the Nextweb customer base.

In the last two years Go's financial statements were impacted by a number of one-off items. In 2008, Go suffered from a significant €12.9 million provision for pension obligations while it incurred just under €2 million in payments to employees who took up the voluntary retirement scheme offers. Part of Go's recent restructuring also entailed the rightsizing of the organisation especially in the fixed line area which was significantly overmanned. In 2009 the costs related to early retirement schemes climbed to €11.5 million as Go successfully terminated the employment of 300 people.

While this negatively impacted the 2009 results by a substantial one-off payment, the group will start reaping the benefits of lower employment numbers with a significant decline in expenses. This reduction in costs coupled with substantially lower early retirement payments during the current financial year should enable Go to return to a

profitable position from its local operations.

Go also stands to benefit from a full-year consolidation of its most recent acquisition. In April 2009, Go acquired a 60 per cent shareholding in the Bell Med Group for €9.4 million. The positive performance of this data centre operation is immediately evident also in the 2009 full-year results through the recognition of profits attributable to 'minority interests' of €507,000. This relates to the 40 per cent shareholding not owned by Go and immediately reveals the high level of profitability of this niche operator.

Excluding these various one-off items, Go's normalized EBITDA for 2009 of €42.6 million (an EBITDA margin of 34.4 per cent), still represents a decline of 18.4 per cent from the EBITDA of €52.2 million in 2008.

The EBITDA in 2010 should be positively impacted from a full-year's contribution of Bell Med as well as the from the increased number of TV connections following their acquisition of sports rights of the English Premier League and the Italian Serie A for the coming football seasons. Although winning these rights must have been costly, Go claims that this will help improve the profitability of its TV business.

While these developments should enable the group to return to profitability again in 2010, Go's bottom line profit figure is heavily impacted by the contribution or otherwise of its investment in Forthnet. In 2009 Go recognised its share of losses from Forthnet of €9.1 million, compared to €12.6 million in 2008. The reduced losses reflect the improved

financial performance of Forthnet in 2009 despite the adverse economic conditions in Greece. Although Forthnet claims that its performance is in line with its forecasts, it is likely that it will take some more years for Go shareholders to start benefitting from a positive contribution and dividends from this investment.

Despite registering a loss in 2009, the board of Go recommended the payment of a net dividend of €0.10 per share (a decline from the previous dividend of €0.12 per share) to shareholders as at close of trading on April 13. This dividend is being put forward for approval by shareholders at the annual general meeting to be held on May 17 and will be payable on May 21. Go's equity is trading on an attractive gross dividend yield of 7.02 per cent per annum based on the current market price of €2.19 per share. The shares have risen by 46 per cent since touching a low of €1.50 last October but the equity remains substantially below its level of previous years.

An important short-term objective for the company remains that of convincing its shareholders that it can return to a profitable position from its local operations and that the net dividend of €0.10 is sustainable in future years. The current gross dividend yield of 7.02 per cent per annum is appealing to those investors aiming for an income coupled with possible capital gains from their investment over the longer-term. The future performance of the share price should reflect the developments of Forthnet and its contribution to Go's financial statements in the coming years.

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