

# Stock Market Review



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## Forthnet Q1 financial results: Subscribers increase; losses widen

Last week, the Greek telecoms company Forthnet published its financial results for the first three months of the year to March 31, 2010.

The Q1 results reveal a 10.1 per cent increase in revenue to €98.3 million with the adjusted EBITDA declining by 10 per cent to €16.6 million. This performance was above most expectations by Greek analysts covering Forthnet. In fact, most claim that Forthnet delivered a solid set of results given the economic conditions. The most positive aspect of the results was that Forthnet managed to increase its customer uptake and recorded the highest addition of subscribers in the company's history.

The number of broadband customers increased by 44,000 during the first three months of the year and as at March 31, 2010, Forthnet had a total of 408,590 broadband connections. ULL customers, i.e. the higher margin telecoms business mainly encompassing a bundled package of fixed line and broadband services, also grew at the fastest pace in the company's history. During the first quarter of 2010, over 42,300 new ULL customers were added bringing the total number to almost 358,000 (market share of 32.8 per cent).

The ULL and broadband subscribers make up the telecom segment of the company. While revenue from telecoms services climbed by 23.9 per cent to €48.6 million, EBITDA increased by only six per cent to €3.8 million due to higher marketing and advertising costs. Meanwhile with respect to Pay-TV, revenue was marginally unchanged compared to the first quarter of 2009 at €50.8 million.

On the other hand, however, EBITDA declined by 13.9 per cent to €12.8 million as a result of higher promotion costs related to new TV offerings as well as higher costs related to the TV content, specifically the recent acquisition of sports rights for a further three-year period at a substantially higher amount compared to the previous auction. Despite the overall decline in EBITDA, the margin of 25.1 per cent from the Pay-TV segment compares favourably to the EBITDA margin in the fourth quarter of 2009 which had declined to only 14 per cent. The decline in EBITDA experienced by the Pay-TV segment during Q409 had clouded the immediate outlook on Forthnet and was possibly one of the main reasons behind the sharp decline in Forthnet's share price in recent months.

The overall loss suffered by Forthnet widened to €15.6 million (Q109: loss of €8.9 million) as a result of the substantial increase in selling and distribution expenses and also due to the higher finance costs. The rise in finance costs reflects the higher margin attributed to one of the company's outstanding loans by the syndicate of banks. Despite the larger losses

compared to last year, one of the Greek analysts expects the full-year loss to be lower than that registered in 2009. He also anticipates Forthnet to become slightly profitable in 2011 before achieving more meaningful profits in 2012.

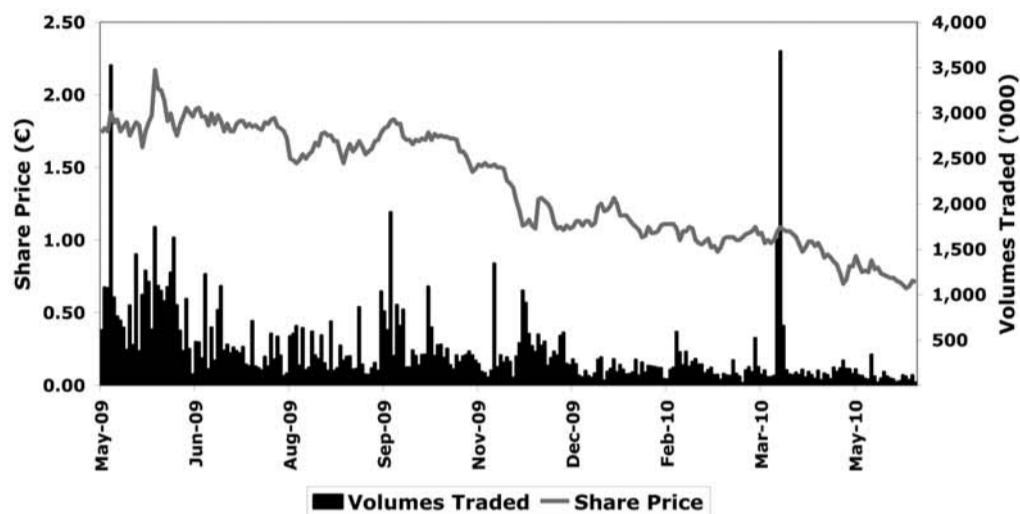
The performance of Forthnet is being tracked closely by many Maltese investors due to the significant investment made by Go plc in this company in recent years. Go and its majority shareholder Emirates International Telecommunications (EIT), through their joint-venture holding company Forgendo, have a 39.9 per cent shareholding in Forthnet. Forgendo is the largest shareholder of Forthnet and their equity stake was recently increased following the acquisition of a further 4,316,931 shares in March 2010 for a total consideration of €4.7 million, equivalent to €1.08 per share. The spike in volumes traded in March 2010 coinciding with Forgendo's additional investment is clearly recognisable in the graph.

Forthnet's share price has declined heavily in recent weeks presumably due to the macro concerns surrounding the Greek economy. However, Forthnet's equity has fallen by much more than the overall decline in the Greek market with Greek analysts attributing this to some worrying trends in the final quarter results of 2009 which have since seemed to be reversed as noted in the last financial results.

The interest by Maltese investors in the performance of Forthnet was very evident during Go's recent annual general meeting when a number of questions from the floor dealt with the performance of the Greek company. Some also questioned whether it was wise to continue purchasing further shares in Forthnet given the very difficult economic conditions and the severe austerity measures being introduced by the Greek government to reduce its huge deficit.

Go's chairman Deepak Padmanabhan, who is also the CEO of EIT and the chairman of Forthnet, clarified that the intention is for Go and EIT to continue acquiring further shares

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in Forthnet jointly, as long as the share price of Forthnet remains attractive. Since the latest acquisition in March by Forgendo at a price of €1.08 per share, Forthnet's share price has declined towards the €0.70 level.

Mr Padmanabhan also said that in line with Greek stockmarket rules, Forgendo can only acquire a maximum equivalent of shares representing a three per cent shareholding in Forthnet every six months. As a result, the next purchases that can be made by Forgendo could only take place towards the end of September.

The majority of the Greek analysts tracking Forthnet's performance seem to agree with Mr Padmanabhan that the current share price of Forthnet is attractive. The target prices of Forthnet by the Greek analysts range between a low of €1.50 and a high of €2.50 compared to a current market price of €0.69. In this context it is worth highlighting that the latest results published by Forthnet as at March 31, 2010 reveal that the net asset value is €2.10 per share.

Since 2008, Forgendo increased its holding in Forthnet in various stages and also participated in the rights issue at €2.57 per share conducted in August 2008 to fund Forthnet's acquisition of the pay-TV business.

The average cost price by Forgendo, including the recent acquisition at €1.08, currently equates to €3.64 per share and therefore acquiring further shares at current price levels will help Forgendo reduce its overall average cost of the Forthnet investment.

Mr Padmanabhan defended this buying spree by claiming that the Greek telecoms industry is bound to consolidate in the future given the fragmentation in the market and the prevailing competition among industry players.

Go's chairman also said that although Forgendo is currently the largest shareholder in Forthnet and already has overall control of the composition of the board of directors, increasing its stake further should add value to Forgendo's equity stake since a

control premium normally attracts a higher multiple over market valuations.

Some Go investors seemed to be concerned at the impact of Forthnet's financial performance given the severe economic conditions in Greece and the effect of the austerity measures on Greek consumption. So far the performance of Forthnet seems to have withstood the recessionary effect.

This may not be surprising given that in times of recession, individuals tend to spend much more time at home and are likely to use broadband and TV services more widely.

Moreover, Forthnet's more attractive service offering compared to the incumbent OTE could also favour a shift from the larger telecom company to Forthnet as consumers would seek to reduce their overall spending and search for a more cost effective solution. In fact, when OTE recently issued its first quarter results, their chief executive officer warned shareholders that in view of the expected negative impact of the Greek rescue plan on consumer spending, intense competition in telecommunications services and tense economic conditions, OTE's profitability could be negatively impacted. OTE's CEO claimed that as Greek businesses and consumers adapt to the austerity measures of the economic rescue plan, an increase in disconnections and a slowdown in telecoms spending can be expected.

In view of the uncertainty surrounding the Greek telecoms sector following from the economic reforms being adopted in Greece, Go should keep their shareholders adequately informed of Forthnet's performance and developments in the Greek market on a timely basis, at least quarterly when Forthnet announces its results.

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