

Europe Satellite*

Recommended since 17.06.2022

17.09.2024



Country DE	Market capitalization (bn) EUR 133,8	Perf. since reco. (%)
Sector Telecommunications	Free float 64,9%	Deutsche Telekom AG 48,7
Factset DTE-DE	Closing price EUR 26,91	Sector 2,4
ISIN DE0005557508	ESG Risk score* 18,6 Low risk	



Profile

Deutsche Telekom is one of the world's leading integrated telecoms firms. It provides fixed telecommunication services including voice, data, internet and TV over IP as well as mobile telecommunication services (voice and data) for residential and business customers. The group has 248m mobile customers, 26m fixed lines and 22m broadband customers. It generates 62.8% of its revenue in the US (T-Mobile – TMUS), 23% in Germany and 14.2% in other countries (mainly in Europe).

Strengths/opportunities

- ⚡ T-Mobile/Sprint merger offers substantial economies of scale and cost savings
- ⚡ Superior revenue, EBITDA and FCF growth
- ⚡ Monetisation of towers

Weaknesses/threats

- ⚡ Telefónica could provoke a more aggressive stance on pricing in Germany
- ⚡ The main threats are regulation and competition as well as growing capex/5G costs

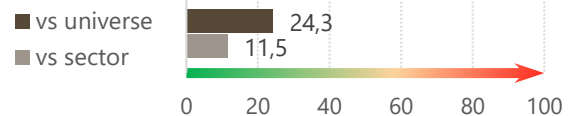
Investment case

- ⚡ Deutsche Telekom offers an attractive combination: above-average European growth on the one hand and an opportunity in the US market with T-Mobile on the other. Operations in Europe continue to grow faster than their European peers thanks to the group's German business (which accounts for 70% of EBITDA excluding TMUS).
- ⚡ In the US, T-Mobile's fundamentals remain solid, with relatively low ARPU (which contributes to high pricing power), a strong position on spectrum coverage and an ability to penetrate rural areas and the business market. The merger with Sprint has boosted T-Mobile's scale and strengthened its position in the wideband spectrum, essential to 5G rollout. Consequently, the merger offers significant cost-cutting opportunities and will contribute to both top and bottom line growth.
- ⚡ As regards debt, management is fully committed to achieving its deleveraging target (a net debt/EBITDA ratio of 2.25-2.75x by end 2024). Thanks to EBITDA and FCF growth and the resilience of the group's US business, deleveraging efforts are not dependent on asset disposals.
- ⚡ Lastly, monetisation of the group's towers (potential: €20bn) could help lower the group's gearing and/or enable it to begin its buyback of T-Mobile shares earlier (2022 rather than 2023).
- ⚡ In terms of 2024 guidance, DT is targeting adjusted EBITDAaL > €42.9bn, FCF > €19bn and cash capex of €16bn (with capex set to peak in 2022). The ratio Net Debt/Ebitda should be between 2.7-2.8x.

Valuation

The share is trading at a discount of 5% on a fwd P/E basis (13.7x for DT vs. 14.4x for the EURO STOXX Telecommunications index) despite its superior growth profile.

ESG risk vs. universe & sector (percentile)*



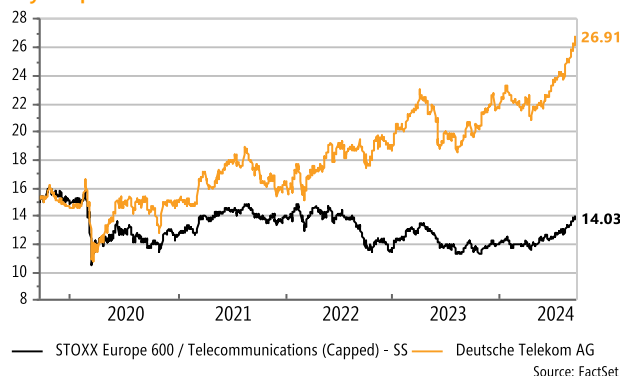
EUR	12/2023	2024e	2025e
Sales revenue (mio)	111 970	114 694	117 431
Sales growth	-2,0%	2,4%	2,4%
EBIT adjusted (mio)	23 155	24 606	26 701
% of sales	20,7%	21,5%	22,7%
Net income (mio)	4 092	9 080	9 859
Net income growth	-45,9%	121,9%	8,6%
FCF/Sales	22,3%	15,6%	16,7%
Net debt/Ebitda	2,9x	2,9x	2,8x
Dividend yield	2,9%	3,2%	3,6%
PE	6,1x	14,9x	13,4x
P/BV	2,1x	2,3x	2,2x

Factset estimates

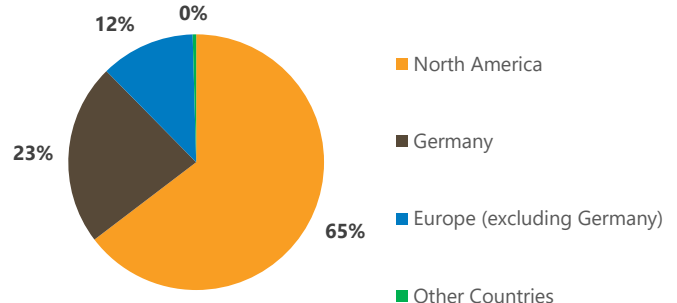
ESG - risks and key points

- ⚡ Ranked low risk, DT, like its sector, is aiming for zero emissions.
- ⚡ M&A: governments may consider the sector strategic (if they are shareholders --> potential conflict of interest).
- ⚡ DT wants to improve its energy consumption, notably through the use of digital technology (smart metering, sustainable construction, data centres).

5-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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