

19 November 2013 | 67 pages

Telecommunications Operators
Global

Vodafone, AT&T, SoftBank, AMX

"Barbarians At The Gate"*#



- **Asset scarcity, tax point to more upside for Vodafone** — We see the smaller, post-VZW Vodafone as a potential bid target. As has been widely covered in the press and as we outline in this report, we see SoftBank and AT&T, possibly in partnership with América Móvil, as potential bidders. We retain our Buy rating on Vodafone with an increased target price of 260p (from 235p) ex 11p in dividend. To calculate our target price we take the average of our 'Transaction' SOP of 290p, which reflects a bid premium, and our 'Go-it-alone' SOP of 250p, now including tax assets at an NPV at £7.9bn or 16p/share, and then deduct the dividend.
- **Limited downside under Go-it-alone SOP; Project Spring accretive in time** — We see relatively little downside to Vodafone even without a bid, given peers are trading at an average of 6.2x 2014E EBITDA vs 5.5x for Vodafone ex Project Spring. We expect a dramatic improvement in its top-line growth over the next 12 months due to fading of multiple sources of deflation, notably MTR and roaming price cuts, migration to Vodafone Red and loss of some MVNO contracts. On our forecasts, EBITDA in FY14E rises 5% to £13.4bn due to bringing forward the consolidation of KDG and falls 5% in FY15E to accommodate Project Spring.
- **AT&T's Possible European Re-Union** — AT&T's potential interest in European wireless parallels Vodafone's rationale for Project Spring, we think. In AT&T's case, we characterize this as a triple-bottom thesis with: 1) the economic cycle, 2) the industry regulatory cycle and 3) the product cycle at or close to their respective troughs with LTE deploying and the European Commission's more supportive stance. We remain cautious on any future benefits to AT&T though, as European telcos are still managed on a country-by-country basis, and repatriation of cash may face tax hurdles.
- **SoftBank ambitions could be met by acquisition of Vodafone** — We think an acquisition of Vodafone could make sense for SoftBank, as it is seeking scale and likely to prioritize network capabilities. Vodafone's ample spectrum in the 2.6GHz band is probably attractive to SoftBank given its focus on TD-LTE. If SoftBank is able to use spectrum in this band in each of Japan, the US and Europe we believe it would quickly be able to realise device and equipment cost synergies.
- **AMX interest in India** — With AMX's attempt to buy the shares that it did not already own in KPN having failed in mid-October, and presumed genuine ambitions to diversify geographically, we think it could be interested in buying Vodafone's assets in India or Eastern Europe, if they were to come up for sale, although it has given no indications it plans to. If AT&T (which owns c.10% of AMX) were to proceed with an acquisition of Vodafone, we think AMX might partner by buying some of Vodafone's developing market assets to expand its footprint and make financing less challenging for AT&T.

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*Reference to: "Barbarians at the Gate: The Fall of RJR Nabisco".

#CORRECTION: In our previous note we had the incorrect number of shares in our AT&T High Multiple Scenario impacting Figures 6 and 11-13.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Data Summary

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
SoftBank	9984	2H	2H	¥7,500	¥7,500	¥418	¥418
America Movil	AMX	2	2	US\$23.00	US\$23.00	P\$20.92	P\$20.92
AT&T	T	2	2	US\$38.00	US\$38.00	US\$2.48	US\$2.48
Vodafone	VOD.L	1	1	£2.35	£2.60	p15.7	p15.9

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Barbarians at the Gate?

In this report, we explore the widely reported¹ rising interest in European mobile assets by possible foreign buyers and believe Vodafone remains an attractive potential opportunity for large telecom providers that may be looking to diversify out of their home markets. We continue to advocate buying the shares of Vodafone, which we expect to be in greater demand from European investors post clearing the overhang of the distribution of Verizon stock received in part payment for its stake in Verizon Wireless, and the opportunity to use the proceeds to help fund its Project Spring investment program and improve its operating fundamentals. The possibility of a sale to a large telco looking to break into the European market provides additional support to our Buy case.

European telcos have experienced an erosion of revenue over the past two years from a combination of competition, regulatory pressures, and a tough macro-economic backdrop, especially within Southern Europe. Meanwhile, other telecom markets have continued to mature and progress with the adoption of 4G LTE services. Large incumbents, such as AT&T and SoftBank, have lost their respective iPhone exclusivities that previously led to meaningful share gains in their markets. América Móvil is facing regulatory pressure in its home market of Mexico, given its favorable market position.

With competition and regulatory constraints potentially weighing on growth for several large global operators in their home markets, we believe Europe has become a region of interest after: 1) revenue underperformance for the past few years; 2) opportunities for the economy and LTE product cycles to spur incremental mobile broadband revenues; 3) low interest rates that could help finance a transaction; and 4) European mobile telecom valuations remain towards the middle of their historical ranges and at a discount to some foreign telecom market averages.

AT&T management's stated interest in Europe, which we believe is likely shared by other large Telcos, relates to what we describe as the triple-bottom thesis with: 1) the economic cycle, 2) the industry regulatory cycle and 3) the product cycle (moving to LTE) at or close to their respective troughs in Europe. The opportunities from a rebound in each of these three cycles could create value across the European Telecom sector. However, we view Vodafone as a unique, strategic asset that can also offer a potential buyer the benefits of size, scale, market diversity, and sovereign independence, all of which is likely to make it an attractive takeover candidate. In addition, Vodafone is also holding onto significant tax losses that a possible acquirer may be able to use to further extract value from the company's portfolio of assets.

Credible Candidates for Bidders

We regard AT&T and SoftBank among global telcos as large enough to be credible potential bidders for Vodafone, with América Móvil as a candidate to take part of the company in a possible break-up scenario. We see Vodafone as a unique strategic asset for a buyer from outside Europe and would expect any bid for control to only be successful at a premium multiple, which we expect to be above the current share price. Given this, we raise our target price to 260p (from 235p), ex 11p in dividend, which is calculated by taking the average of our 'Transaction' SOP of 290p, which reflects a bid premium, and our 'Go-it-alone' SOP of 250p, now including tax assets at an NPV at £7.9bn or 16p/share, and then deduct the dividend. We retain our Buy rating on Vodafone and Neutral ratings on AT&T, SoftBank (2H) and América Móvil.

¹ For example: <http://www.bloomberg.com/news/2013-10-31/at-t-is-said-to-explore-vodafone-takeover-as-soon-as-next-year.html>

<http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/telecoms/10419960/Vodafone-shares-rise-on-ATandT-takeover-talk.html>

On a go-it-alone basis we value the tax assets at an NPV of £7.9bn (16p/share) assuming that they are used evenly over 30 years at around £0.67bn pa.

In the case of a US bidder there is a catch, which is that as US repatriation tax is applied to any profits paid from a foreign subsidiary to the US top company, any tax benefit of offshoring US profits would be negated once repatriated.

Vodafone has significant tax losses with £20.2bn of tax assets recognized on its balance sheet, which we value at £7.9bn (16p/share) assuming no change in the structure of the group. Vodafone says that these losses would be available to a potential acquirer depending upon the jurisdiction and structure of a transaction. These and the ability of multinationals to optimize their tax affairs could be a significant dimension in any deal and could release additional value. If the use of Vodafone's tax losses can be accelerated to £1bn pa (from £0.67bn), this adds £2.5bn in value or 5p per Vodafone share.

However, in the case of a US bidder there is a catch, which is that as US tax on repatriation of foreign earnings is applied to any profits upstreamed from abroad to the US top company, any benefit would be negated once repatriated.

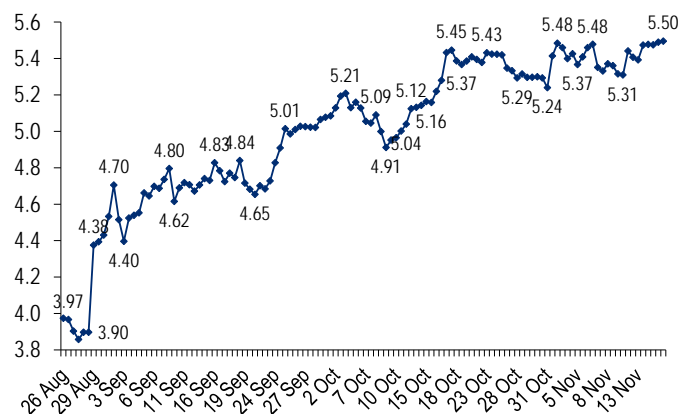
In general, we believe that any bidder could effect a structure for an acquisition of Vodafone, which would keep the Luxembourg losses in place and keep most or all of Vodafone's German losses for use in its existing German operations. A US bidder may be able to apply an asset purchase structure to create tax deductible goodwill to offset against US tax on repatriation of foreign earnings, although given the complexity of this undertaking we are not clear about possible consequences of an asset purchase (rather than a stock purchase) for other aspects of the tax structure.

Core Vodafone now trading at 5.5x FY15E EBITDA

Post its distribution of part of its VZW sale proceeds, Vodafone's EV will be £75bn (\$121bn) based on current market prices. On our estimates Vodafone's core (i.e. residual) business post the sale of Verizon Wireless and distribution of proceeds to shareholders trades at 5.5x EBITDA for FY15E (Figure 1) pre the additional costs taken on for Project Spring and not adjusting for the NPV of its tax assets. This compares to the European sector ex Vodafone, which trades at 6.2x calendar 2014E EBITDA, a substantial discount despite the speculation about bid interest in the core operations.

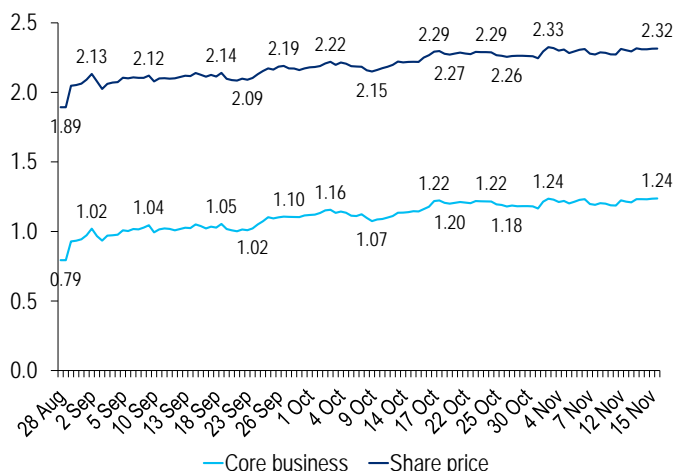
The price per share implied for core Vodafone has rallied around 27% since 30 August when the VZW deal was first being priced in, outpacing the sector by 10%.

Figure 1. Core Vodafone implied EV/EBITDA
X, FY15



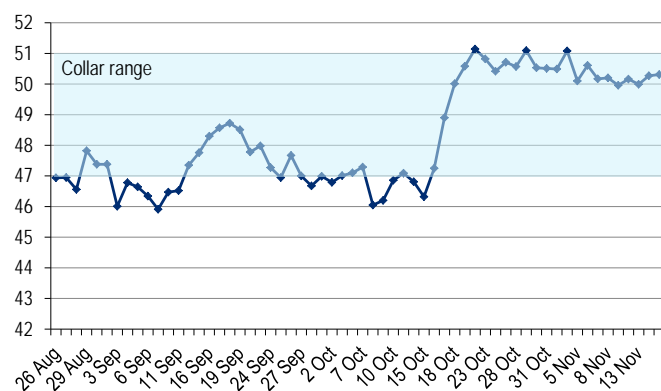
Source: DataStream, Company reports, Citi Research Estimates

Figure 2. Core Vodafone implied share price
p/share



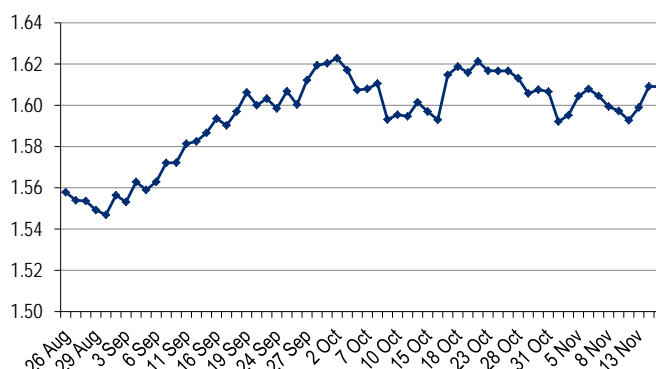
Source: DataStream, Company reports, Citi Research Estimates

Figure 3. Verizon stock price close to the top of the collar range
\$/share



Source: DataStream

Figure 4. Sterling was stronger initially but lately weakening somewhat
\$/£



Source: DataStream

AT&T's European Re-Union: Our rationale for possible AT&T interest in Vodafone

Based on prior comments from AT&T management, we believe AT&T is interested in investing in European wireless assets through possible partnerships and outright acquisitions. We would summarize AT&T's potential interest to invest in European wireless assets as a triple-bottom thesis as follows:

- The economic cycle could be at a trough.
- The regulatory cycle for telecom may be at a trough (i.e. regulatory headwinds could ease in the future).
- The product cycle is at a trough with the upcoming deployment of LTE services. After all, AT&T's logo is still a globe.

We think Vodafone would provide European continental scale in a single-step for AT&T, but we remain cautious on any future benefits to AT&T in such a scenario given that the European telecom market still seems to be managed on a country-by-country basis, investment may need to rise to create future revenue growth, and cash generated from overseas assets may face some hurdles to efficiently be brought back for US investors. Despite our concerns, we believe AT&T is likely to consider an acquisition of Vodafone at some point in the future, but believe the transaction between Verizon and Vodafone would need to be completed before AT&T could consider stepping into the ring. Given AT&T's public comments on the European Telecom market, we see a bid for Vodafone by AT&T sometime in 2014 or 2015 as a highly plausible scenario.

As explained in [Teleconomy 2013 - "Barbarians at the Gate" – Implications for AT&T](#), the mechanics of the deal scenario between AT&T and Vodafone show the risk of dilution to pre-synergy EPS before intangibles amortization dilution (i.e. from intangibles/customer lists) in the first year that could be more than offset by our rough estimate of synergy and tax efficiencies sometime in the second or third year, depending on the valuation of the transaction. Our main takeaway is that AT&T could financially justify the transaction within the context of: 1) elevated U.S.-based valuations; 2) eventual pre-amortization EPS and normalized FCF per share accretion if the company can capture tax savings and synergies, based on our estimates (i.e. within 3 years); and 3) the prospect to eventually improve its dividend

payout ratio of normalized free cash flow (by year-3). We also recognize the possible acquisition of European assets and globalization of the company's mobile strategy runs the risk of diluting strategic investment within the domestic operations, increasing execution risk across the broader portfolio, and accelerating investment in Europe beyond the Project Spring strategy to better compete with quad-plays from wireline incumbents within several European countries.

Sprinting to be #1: Our rationale for possible SoftBank interest in Vodafone

2006: Aiming to become No. 1 in Japan.

At the time of the 2006 acquisition of Vodafone Japan, SoftBank CEO Masayoshi Son said that within 10 years the company aimed to overtake NTT DoCoMo, the carrier with the largest Japanese subscriber base. A series of aggressive M&A deals and investment plus earnings growth at major group companies in Japan (mobile, fixed network, internet and social gaming) resulted in SoftBank's consolidated operating profit exceeding that of NTT DoCoMo in April-June 2013.

2013: Aiming to become No. 1 in world.

Since achieving this, the company has been quick to announce another series of bold targets. At its April-June results briefing, Mr. Son said that SoftBank would now aim to become No. 1 in the world, and to establish a company that would continue to grow for more than 300 years. He also said that now that the company was No. 1 in Japan in terms of operating profit, it would aim to become No. 1 in the world also on this measure. Mr. Son also emphasized that, in a first step towards becoming world No. 1, SoftBank would accelerate its growth strategy in the US via Sprint and Clearwire.

Likely to look to European market after Japan, US.

Given its long-term goal of being No. 1 globally in OP, we believe SoftBank could well look to enter the European market, given the size of the regional economy and the fact that, similar to Japan and the US, mobile internet is expected to expand quickly thanks to market uptake of multiple devices.

Five factors for differentiation.

The company has said it aims to leverage the experience and know-how accumulated in Japan to differentiate itself from competitors as it expands its overseas business leveraging five areas: 1) networks, 2) devices, 3) marketing/branding, 4) services/content, and 5) cost synergies.

Recent M&A deals suggest intention to boost competitiveness not only in US but on global scale.

Recently, SoftBank has announced the acquisitions of BrightStar, a mobile device wholesaler that operates in 115 countries, and SuperCell, a global social app provider. These acquisitions hint at an intention to improve in competitiveness in devices, service/content and cost synergies, not only in the US but on a global scale. So the scenario for the company to enter the European market may be realized in the not too distant future.

Vodafone's 2.5GHz spectrum would be an attractive proposition for SoftBank.

Under this scenario, we think a potential acquisition of Vodafone could make sense for SoftBank. This is because when choosing an M&A target that would enable it to enter a new market, we think that Softbank is likely to prioritize network capabilities, the core competency of the telecoms industry, among the five areas listed above. From this perspective, we think Vodafone's ample spectrum in the 2.5GHz band is probably attractive to SoftBank given its network strategy of developing high-speed internet services in the 2.5GHz band using TD-LTE. If SoftBank is able to use spectrum in this band in each of Japan, the US, and Europe, we believe it would also be able to quickly realize synergies in areas such as devices and costs (capital spending and centralized device procurement).

May prioritize Internet business development in Europe.

Under scenarios other than that outlined above, differences in the regulatory environment compared with Japan may prove a barrier to entry into the European market. It should also be noted that SoftBank may elect to prioritize the development of the Internet business over the telecoms business.

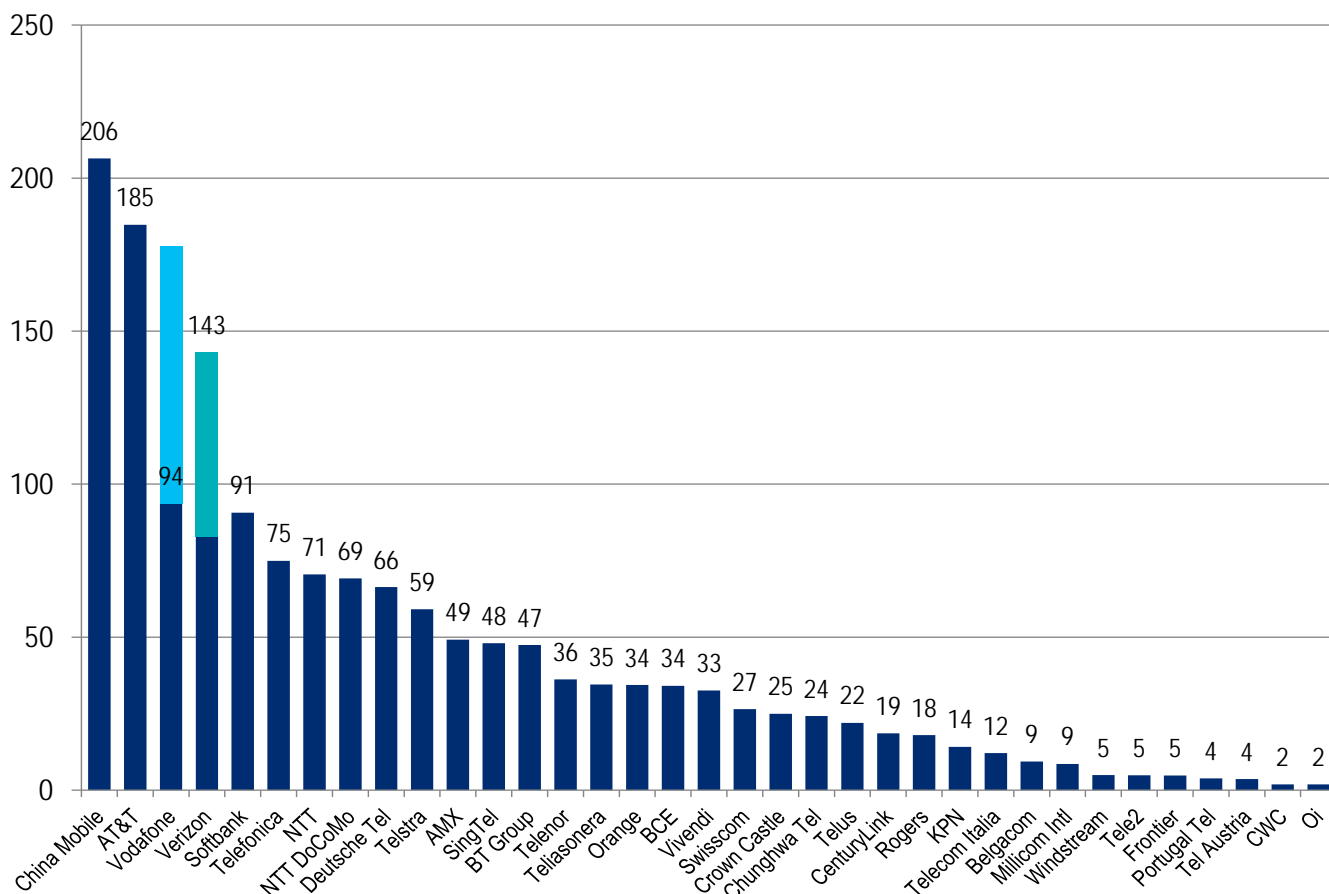
Scenario analysis (5.5x-7.0x) FY15

- **AT&T:** We assume AT&T pays 50/50 cash/stock for Vodafone's equity and assumes its net debt. On that basis, with no synergy, we find the deal would be 4-15% accretive to FCF per share in 2016, although dilutive nearer term during elevated capex at Vodafone's Project Spring. Net debt/EBITDA at end 2015E would be 2.6x-2.9x. Our synergy assumptions add around \$1.85bn in FCF and would increase accretion of EPS by 11% and FCF per share by 10% (page 10).
- **SoftBank:** We assume that SoftBank uses a similar structure to that it applied to Sprint, gearing Vodafone up to 3x net debt/EBITDA (at March 2014E) before purchasing a 60% controlling stake for cash – both stages at 5.5x-7.0x EBITDA. On that basis, we find a deal would be highly accretive to FCF/share in 2016, post the Project Spring spend, between 8% dilutive and 1% accretive to Softbank's EPS in calendar 2015E and 2%-11% accretive in 2016E. Group consolidated net debt/EBITDA at end 2015E is 3.7x-4.2x and proportionate net debt/EBITDA is 3.8x-4.4x (page 16).

Screening Vodafone's prospective bidders

Figure 5 shows the ranking of the world's largest telcos with Vodafone third prior to its distribution of VZW proceeds to shareholders, and fourth afterwards though still a sizeable market cap at \$93bn, with less debt. Verizon moves from fourth to third due to the issuance of new shares to pay for the deal moving Verizon up to \$143bn. The distribution by Vodafone of some cash is why its market cap falls by more than Verizon moves up.

Figure 5. Global Telecoms Index Constituents by Market Capitalisation, picking out the post VZW deal distribution by Vodafone and stock issuance by Verizon, \$bn



Source: Company data, DataStream (S&P Global 1200 Telecoms index)

For this report we have assumed that Vodafone would mainly be attractive to a global telco rather than an out of sector bidder. This is consistent with recent deals in the sector in Europe, which have generally been telco on telco or have involved private equity. As Vodafone will still be so large even post its VZW distribution that in our view any bidder needs to have at least a similar market capitalization as the target.

We rule out China Mobile and Verizon as prospective bidders leaving AT&T and Softbank as sufficiently large to be credible candidates without excessive asset overlap.

Of the largest telcos we have ruled out China Mobile, as we see the constraints that it operates under implying a more modest foray for its first significant overseas investment, if it comes. We also rule out Verizon, which had the opportunity to negotiate a merger with Vodafone earlier in 2013 and declined. That leaves AT&T and Softbank as credible potential candidates, given their expansion ambitions, with America Móvil as a possible partner to AT&T given their commercial relationship and AMX's ambitions to expand in Europe that are already evident from its purchase of stakes in KPN and Telekom Austria.

AT&T / Vodafone Deal Scenarios

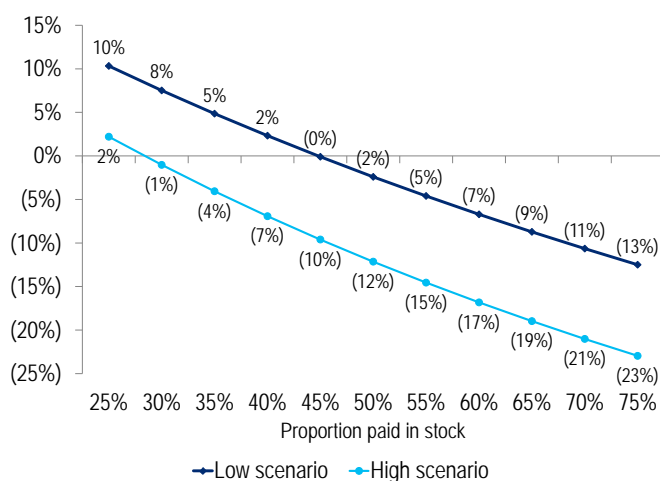
We have run two scenarios for a potential acquisition of the Vodafone core business that remains post the distribution of part of the proceeds from the sale of its stake in Verizon Wireless. Our scenarios run from 5.5x FY15E EBITDA to 7.0x FY15E EBITDA on core Vodafone, plus our estimate of the NPV of the tax assets, which starts at a discount to European peers and rises to the higher end of the peer trading range, reflecting a take-over premium. On our calculations, 5.5x-7.0x FY15E EBITDA produces a share price range for Vodafone of £2.47-£2.88, including £1.08 for the VZW distribution and 16p for our estimate of the NPV of the tax assets.

We include no assumptions for operating or tax synergies. We also assume no disposals at this stage.

The potential deal structure that we have assumed would reduce the combined dividend bill, since the Vodafone dividend falls away and the new AT&T shares issued as part of the deal would yield less and would be worth only half of Vodafone's current market cap. Assuming the same DPS for AT&T, we calculate the combined entity could have an additional c.\$2bn pa to reduce debt from the increased leverage level that our scenario assumes post any deal.

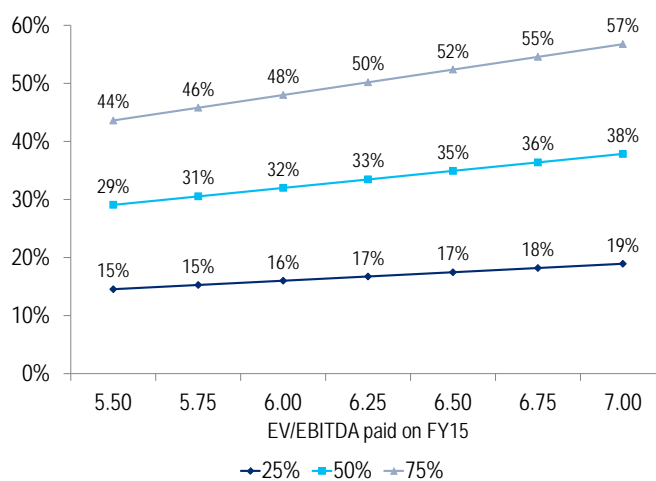
Within the scenario analysis, we would highlight three categories that could further affect our analysis that we have not initially included in our financial assessment of the potential transaction: 1) *improving tax efficiency* through Vodafone's NOLs and the ability to transfer expenses from lower European tax jurisdictions to higher US tax jurisdictions, including the possible use of marketing JVs; 2) *synergy realization* for both possible expenses and capital investments; and 3) *deal-related intangible amortization* that may further dilute reported earnings, but could create some additional sources of tax efficiency, depending on the structure of the transaction.

Figure 6. AT&T earnings accretion, excluding goodwill amortization, depending on stock component, % EPS accretion in calendar 2015



Source: Citi Research Estimates

Figure 7. AT&T stock issued in transaction, % of existing shares outstanding



Source: Citi Research Estimates

Our synergy assumptions on tax management and procurement savings add around \$1.85bn in post-tax cash flow and could increase EPS accretion by 11% and FCF per share accretion by 10%.

Operating and Tax Synergies

Specific synergy assumptions on tax management and procurement savings could add around \$1.7bn in post-tax cash flow and could increase EPS accretion by 11% and FCF per share accretion by 10%:

Vodafone Tax Losses: accelerating the use of Vodafone's tax losses to 20 years from 30 years, i.e. adding ~\$500m in saved tax p.a. but exhausting them more quickly, could add £2.5bn in NPV (\$4.1bn). We calculate this could enhance EPS and FCF per share by 3%.

Ordinary tax measures: Excluding any possible deal, we expect AT&T to pay over \$8bn pa in cash tax pa from 2014. This could be reduced by around \$1bn by the leverage we think could be raised to pay the cash component of the acquisition. In addition, we would expect AT&T to be able to make some general use of offshore funding, as well as purchasing and IPR licensing from lower tax jurisdictions, among other measures. If this were enough to save another \$500m in tax pa that could further enhance EPS and FCF per share by 3%.

Procurement: There are likely to be some procurement benefits from the combination although this is probably small, as both are already scale purchasers. Everything including radio equipment, routing, transmission, laptops and, most significantly, handsets and tablets could be purchased on an even greater scale than before. The total budget at Vodafone and AT&T for handsets and capital equipment (excluding Project Spring) could come to around \$45bn pa on our estimates and if 2.5% could be saved from that it would imply a further \$850m pa post tax worth 5% to EPS and 4% to FCF per share.

In the low multiple scenario we assume that AT&T pays £2.47 per share for Vodafone in 50/50 debt/equity, retaining all the assets. This equates to an EV of \$125bn with \$54bn of new debt at a funding cost of 4.9%. With no synergy in the first year post Project Spring (2016) this is 15% accretive to FCF/share on our estimates and it is 2.4% dilutive to EPS.

Low scenario: 5.5x FY15E EBITDA, 50/50 debt/equity

Figure 8. AT&T Low Multiple Scenario – 5.5x EBITDA for Core Vodafone

£m, \$m

Vodafone			AT&T		
Core EV/EBITDA	5.5x		Equity component of deal	50%	
EBITDA, excl Project Spring (FY15)	(£m)	13,543	(of VOD market cap)		
Enterprise Value	(£m)	74,489	\$/£		1.61
Net (debt) & pensions (Mar 14)	(£m)	(10,067)	Equity	(\$m)	54,294
Minorities	(£m)	(6,314)	New debt	(\$m)	54,294
Associates	(£m)	1,396	Debt assumed	(\$m)	16,229
Tax assets (NPV)	(£m)	7,851	Total EV	(\$m)	124,816
Market value	(£m)	67,355	AT&T share price	(\$)	35.4
Number of shares pre consol	(m)	48,463	# AT&T shares issued	(m)	1,532
Core value per share	(£)	1.39			
VZW distribution per share	(£)	1.08	2015	2016	
VOD per share	(£)	2.47	EPS accretion	(8.3%)	(2.4%)
			FCF accretion	(14.8%)	14.9%

Source: Citi Research Estimates

Figure 9. AT&T Low Multiple Scenario – outcome (\$m, year to Dec)

	2014E	2015E	2016E	2014E	2015E	2016E
Share price	\$35.4					
	Pre deal			Post deal		
Market cap	186,753	184,361	182,129	241,047	238,654	236,423
Net debt & pension	94,342	96,273	96,847	168,424	172,624	169,343
Minorities/associates	0	0	0	7,929	7,929	7,929
Enterprise value	281,095	280,634	278,976	417,400	419,207	413,695
EV/EBITDA	6.6x	6.4x	6.2x	6.6x	6.4x	6.1x
P/E	13.6x	12.9x	12.5x	15.4x	14.1x	12.8x
FCF Yield	7.0%	6.6%	7.5%	6.1%	5.6%	8.6%
Accretion/(dilution):						
EV/EBITDA				0.2%	(0.3%)	1.9%
P/E				(11.8%)	(8.2%)	(2.3%)
FCF Yield				(13.6%)	(14.7%)	15.0%

Source: Citi Research Estimates

Figure 10. Low multiple scenario financial impact – 5.5x EBITDA for Core Vodafone, \$m, year to Dec

Year to Dec	Vod			AT&T			Finan			Comb			
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	
Revenue	70,868	71,377	72,093	130,769	132,902	135,127				201,638	204,278	207,220	
EBITDA	20,853	21,492	22,924	42,754	43,892	44,906				63,608	65,384	67,830	
EBIT	7,556	7,737	9,104	24,371	25,338	25,852				31,927	33,076	34,956	
Associates	88	91	95	300	300	300	Rate			388	391	395	
Net interest	(1,557)	(1,291)	(1,182)	(3,586)	(3,695)	(3,701)	4.90%	(2,659)	(2,651)	(2,633)	(7,802)	(7,637)	(7,515)
Tax	(1,869)	(1,513)	(1,708)	(7,080)	(7,338)	(7,511)	35%	931	928	921	(8,019)	(7,924)	(8,297)
Minorities	(589)	(614)	(680)	(360)	(360)	(360)				(949)	(974)	(1,040)	
Net income	3,629	4,410	5,629	13,744	14,245	14,580		(1,728)	(1,723)	(1,711)	15,645	16,932	18,498
EPS	0.18	0.17	0.22	2.63	2.75	2.85					2.31	2.52	2.79
Accretion/(Dilution)											(11.9%)	(8.3%)	(2.4%)
DPS (\$)	0.18	0.19	0.21	1.84	1.86	1.88		1.84	1.86	1.88	1.84	1.86	1.88
Mvmt in Wkg Cap	80	80	80	256	256	256					336	336	336
Net capex	(14,157)	(15,247)	(11,275)	(20,200)	(20,000)	(19,500)					(34,357)	(35,247)	(30,775)
Net interest	(1,549)	(1,285)	(1,177)	(3,586)	(3,695)	(3,701)		(2,659)	(2,651)	(2,633)	(7,794)	(7,631)	(7,511)
Dividends net rec'd	490	(366)	(370)								490	(366)	(370)
Tax	(2,472)	(1,684)	(1,737)	(6,080)	(8,338)	(8,311)		931	928	921	(7,622)	(9,095)	(9,127)
FCF pre spectrum	3,246	2,989	8,445	13,143	12,115	13,650		(1,728)	(1,723)	(1,711)	14,661	13,381	20,384
FCF per share	0.13	0.12	0.33	2.51	2.34	2.67					2.17	2.00	3.07
Accretion/(Dilution)											(13.7%)	(14.8%)	14.9%
Dividends paid	(4,614)	(4,813)	(5,115)	(9,587)	(9,530)	(9,514)		(2,820)	(2,850)	(2,881)	(12,406)	(12,380)	(12,395)
Dividends avoided								4,614	4,813	5,115			
Dividends % of FCF	142.1%	161.0%	60.6%	72.9%	78.7%	69.7%					84.6%	92.5%	60.8%
Net debt/pensions	(19,855)	(22,362)	(19,030)	(94,342)	(96,273)	(96,847)	(54,294)	(54,228)	(53,989)	(53,466)	(168,424)	(172,624)	(169,343)
Dil Shares, y/e				5,271	5,204	5,141		1,532	1,532	1,532	6,803	6,736	6,673
Dil Shares, avg	25,732	25,781	25,845	5,235	5,174	5,108		1,532	1,532	1,532	6,767	6,706	6,641
Net debt/EBITDA	0.95	1.04	0.83	2.21	2.19	2.16					2.65	2.64	2.50

Source: Citi Research Estimates

In the high multiple scenario we assume that AT&T pays £2.88 per share for Vodafone in 50/50 debt/equity, retaining all the assets. This equates to an EV of \$158bn with \$71bn of new debt at a funding cost of 5%. With no synergy in the first year post Project Spring (2016) this is 4% accretive to FCF/share on our estimates but it is 12% dilutive to EPS.

High scenario: 7.0x FY15 EBITDA, 50/50 debt/equity

Figure 11. AT&T High Multiple Scenario – 7.0x EBITDA for Core Vodafone

£m, \$m

Vodafone			AT&T		
Core EV/EBITDA		7.0x	Equity component of deal		50%
EBITDA, excl Project Spring (FY15)	(£m)	13,543	(of VOD market cap)		
Enterprise Value	(£m)	94,804	\$/£		1.61
Net (debt) & pensions (Mar 14)	(£m)	(10,067)	Equity	(\$m)	70,669
Minorities	(£m)	(6,314)	New debt	(\$m)	70,669
Associates	(£m)	1,396	Debt assumed	(\$m)	16,229
Tax assets (NPV)	(£m)	7,851	Total EV	(\$m)	157,567
Market value	(£m)	87,671			
			AT&T share price	(\$)	35.4
Number of shares pre consol	(m)	48,463	# AT&T shares issued	(m)	1,995
Core value per share	(£)	1.81		2015	2016
VZW distribution per share	(£)	1.08	EPS accretion	(17.4%)	(12.1%)
VOD per share	(£)	2.88	FCF accretion	(24.1%)	3.8%

Source: Citi Research Estimates

Figure 12. AT&T High Multiple Scenario – 7.0x EBITDA for Core Vodafone

	2014E	2015E	2016E	2014E	2015E	2016E
Share price	\$35.4					
	Pre deal			Post deal		
Market cap	186,753	184,361	182,129	241,047	238,654	236,423
Net debt & pension	94,342	96,273	96,847	186,241	191,939	190,215
Minorities/associates	0	0	0	7,929	7,929	7,929
Enterprise value	281,095	280,634	278,976	435,216	438,522	434,567
EV/EBITDA	6.6x	6.4x	6.2x	6.8x	6.7x	6.4x
P/E	13.6x	12.9x	12.5x	16.0x	14.6x	13.3x
FCF Yield	7.0%	6.6%	7.5%	5.8%	5.3%	8.3%
Accretion/(dilution):						
EV/EBITDA				(3.9%)	(4.7%)	(3.0%)
P/E				(15.1%)	(11.6%)	(5.9%)
FCF Yield				(17.1%)	(18.8%)	11.2%

Source: Citi Research Estimates

Figure 13. High multiple scenario financial impact – 7.0x EBITDA for Core Vodafone, \$m, year to Dec

Year to Dec	Vod			AT&T			Finan			Comb			
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	
Revenue	70,868	71,377	72,093	130,769	132,902	135,127				201,638	204,278	207,220	
EBITDA	20,853	21,492	22,924	42,754	43,892	44,906				63,608	65,384	67,830	
EBIT	7,556	7,737	9,104	24,371	25,338	25,852				31,927	33,076	34,956	
Associates	88	91	95	300	300	300	Rate			388	391	395	
Net interest	(1,557)	(1,291)	(1,182)	(3,586)	(3,695)	(3,701)	5.00%	(3,568)	(3,634)	(3,691)	(8,711)	(8,619)	(8,574)
Tax	(1,869)	(1,513)	(1,708)	(7,080)	(7,338)	(7,511)	35%	1,249	1,272	1,292	(7,701)	(7,580)	(7,927)
Minorities	(589)	(614)	(680)	(360)	(360)	(360)				(949)	(974)	(1,040)	
Net income	3,629	4,410	5,629	13,744	14,245	14,580		(2,319)	(2,362)	(2,399)	15,054	16,294	17,810
EPS	0.18	0.17	0.22	2.63	2.75	2.85					2.08	2.27	2.51
Accretion/(Dilution)											(20.7%)	(17.4%)	(12.1%)
DPS (\$)	0.18	0.19	0.21	1.84	1.86	1.88		1.84	1.86	1.88	1.84	1.86	1.88
Mvmt in Wkg Cap	80	80	80	256	256	256					336	336	336
Net capex	(14,157)	(15,247)	(11,275)	(20,200)	(20,000)	(19,500)					(34,357)	(35,247)	(30,775)
Net interest	(1,549)	(1,285)	(1,177)	(3,586)	(3,695)	(3,701)		(3,568)	(3,634)	(3,691)	(8,703)	(8,613)	(8,569)
Dividends net rec'd	490	(366)	(370)								490	(366)	(370)
Tax	(2,472)	(1,684)	(1,737)	(6,080)	(8,338)	(8,311)		1,249	1,272	1,292	(7,303)	(8,751)	(8,756)
FCF pre spectrum	3,246	2,989	8,445	13,143	12,115	13,650		(2,319)	(2,362)	(2,399)	14,070	12,742	19,696
FCF per share	0.13	0.12	0.33	2.51	2.34	2.67					1.95	1.78	2.77
Accretion/(Dilution)											(22.5%)	(24.1%)	3.8%
Dividends paid	(4,614)	(4,813)	(5,115)	(9,587)	(9,530)	(9,514)		(3,670)	(3,710)	(3,750)	(13,257)	(13,240)	(13,264)
Dividends avoided								4,614	4,813	5,115			
Dividends % of FCF	142.1%	161.0%	60.6%	72.9%	78.7%	69.7%					94.2%	103.9%	67.3%
Net debt/pensions	(19,855)	(22,362)	(19,030)	(94,342)	(96,273)	(96,847)	(70,669)	(72,045)	(73,304)	(74,338)	(186,241)	(191,939)	(190,215)
Dil Shares, y/e				5,271	5,204	5,141		1,995	1,995	1,995	7,266	7,198	7,135
Dil Shares, avg	25,732	25,781	25,845	5,235	5,174	5,108		1,995	1,995	1,995	7,229	7,168	7,103
Net debt/EBITDA	0.95	1.04	0.83	2.21	2.19	2.16					2.93	2.94	2.80

Source: Citi Research Estimates

Softbank / Vodafone Deal Scenarios

In the case of Softbank, we again run two scenarios at 5.5x-7.0x FY15 EBITDA pre Project Spring; however we use a different deal structure. Instead of part stock part cash, we assume that SoftBank does not issue parent company shares but instead leaves Vodafone listed. In our view, SoftBank might consider using its equity as part payment, but given its transaction history the company mainly prefers to use debt. That said, this structure would require very significant amounts of new debt, even by the standards of recent bond raising, particularly for the high multiple scenario. For financing purposes, therefore, it may be necessary for the purchaser to substitute some of its own stock for cash as the price point rises.

On our assumptions for the low-high price scenarios of 5.5x-7.0x FY15 EBITDA, we assume Vodafone is levered up to 3x FY15 EBITDA (pre Project Spring) by taking on £30bn (\$49bn) of debt and then SoftBank acquires 60% of its equity for £22-34bn (\$36-55bn) in cash. Under these assumptions, we find the deal to be between 7.6% dilutive and 1.5% accretive to Softbank's EPS in calendar 2015 and 2-11% accretive in 2016. Group consolidated net debt/EBITDA at end 2015E is 3.7x-4.2x and proportionate net debt/EBITDA is 3.8x-4.4x.

In 2014 and 2015, the calendar years where we assume Vodafone continues with Project Spring, it is dilutive to FCF/share but once Project Spring completes (2016) it is highly accretive.

Figure 14. Leverage at Softbank, Vodafone, Sprint under the scenarios

\$m, year to December

Pre deal	Net debt			EBITDA			Net debt/EBITDA		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
Softbank parent	(37,749)	(32,220)	(25,092)	15,247	16,210	16,717	2.5	2.0	1.5
Sprint	(30,627)	(30,780)	(29,694)	6,771	8,010	8,884	4.5	3.8	3.3
Total	(68,376)	(62,999)	(54,785)	22,018	24,220	25,601	3.1	2.6	2.1
Proportionate	(61,638)	(56,228)	(48,253)	20,529	22,458	23,646	3.0	2.5	2.0
Low scenario	Net debt			EBITDA			Net debt/EBITDA		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
Softbank parent	(73,076)	(67,209)	(59,631)	15,247	16,210	16,717	4.8	4.1	3.6
Sprint	(30,627)	(30,780)	(29,694)	6,771	8,010	8,884	4.5	3.8	3.3
Vodafone	(68,766)	(70,806)	(66,851)	20,853	21,492	22,924	3.3	3.3	2.9
Total	(172,469)	(168,796)	(156,176)	42,872	45,712	48,525	4.0	3.7	3.2
Proportionate	(138,225)	(133,701)	(122,903)	33,041	35,353	37,401	4.2	3.8	3.3
High scenario	Net debt			EBITDA			Net debt/EBITDA		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
Softbank parent	(93,170)	(87,749)	(80,614)	15,247	16,210	16,717	6.1	5.4	4.8
Sprint	(30,627)	(30,780)	(29,694)	6,771	8,010	8,884	4.5	3.8	3.3
Vodafone	(69,290)	(71,894)	(68,556)	20,853	21,492	22,924	3.3	3.3	3.0
Total	(193,087)	(190,424)	(178,863)	42,872	45,712	48,525	4.5	4.2	3.7
Proportionate	(158,633)	(154,894)	(144,908)	33,041	35,353	37,401	4.8	4.4	3.9

Source: Citi Research Estimates

In the low multiple scenario, we assume that Vodafone gears up to 3x FY15E EBITDA (pre Project Spring) and Softbank buys 60% of Vodafone's equity for cash, retaining all the assets. Both the cash return and the purchase being at £2.47/share. This would require new debt of £30.6bn (\$49.3bn) for the buyback and another £22.1bn (\$35.6bn) for the purchase of control at an assumed funding cost of 5%. With no synergy in the first year post Project Spring (2016) this is highly accretive to FCF/share on our estimates and 11% accretive to EPS.

Low scenario: 5.5x FY15 EBITDA, for 60% post gearing up

Figure 15. SoftBank Low Multiple Scenario – 5.5x EBITDA for Core Vodafone
£m

Vodafone			SoftBank		
Core EV/EBITDA		5.5x	Equity stake in Vodafone		60%
EBITDA, excl Project Spring (FY15)	(£m)	13,543	Post deal VOD net debt/EBITDA		3.0x
Enterprise Value	(£m)	74,489			
Net (debt) & pensions (Mar 14)	(£m)	(10,067)	Debt raise at Vodafone	(£m)	30,564
Minorities	(£m)	(6,314)	New debt to acquire stake	(£m)	22,075
Associates	(£m)	1,396			
Tax assets (NPV)	(£m)	7,851	Vodafone post deal		
Market value	(£m)	67,355	Market value	(£m)	36,792
			Net debt & pensions	(£m)	40,630
Number of shares pre consol	(m)	48,463	Minorities & associates	(£m)	4,918
			Total EV	(£m)	82,340
Core value per share	(£)	1.39			
VZW distribution per share	(£)	1.08			
VOD per share	(£)	2.47			
			EPS accretion		2015 2016
			FCF accretion	(19.2%)	61.3%

Source: Citi Research Estimates

Figure 16. Softbank Low Multiple Scenario – outcome (\$m, year to Dec)

	2014E	2015E	2016E	2014E	2015E	2016E
Share price	¥7,740					
	Pre deal			Post deal		
Market cap	93,947	93,947	93,947	93,947	93,947	93,947
Net debt & pension	68,376	62,999	54,785	172,469	168,796	156,176
Minorities/associates	264	264	264	31,918	31,918	31,918
Enterprise value	162,587	157,210	148,996	298,335	294,661	282,041
EV/EBITDA	7.4x	6.5x	5.8x	7.0x	6.4x	5.8x
P/E	16.3x	12.1x	11.0x	17.3x	11.9x	9.9x
FCF Yield	2.2%	5.7%	7.6%	1.4%	4.6%	12.3%
Accretion/(dilution):						
EV/EBITDA				6.1%	0.7%	0.1%
P/E				(5.8%)	2.1%	10.8%
FCF Yield				(36.3%)	(19.2%)	61.3%

Source: Citi Research Estimates

Figure 17. Low multiple scenario financial impact – 5.5x EBITDA for Core Vodafone, \$m, year to Dec

Year to Dec	Vod			SB			Finan			Comb			
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	
Revenue	70,868	71,377	72,093	75,401	80,033	81,369				146,270	151,410	153,463	
EBITDA	20,853	21,492	22,924	22,018	24,220	25,601				42,872	45,712	48,525	
EBIT	7,556	7,737	9,104	11,495	13,202	14,800				19,051	20,939	23,904	
Associates	88	91	95	1,182	1,937	2,262	Rate			1,270	2,028	2,358	
Net interest	(1,557)	(1,291)	(1,182)	(2,767)	(2,767)	(2,581)	5.0%	(4,260)	(4,224)	(4,177)	(8,584)	(8,283)	(7,939)
Tax	(1,869)	(1,513)	(1,708)	(3,262)	(3,556)	(5,003)	30%	1,278	1,267	1,253	(3,854)	(3,802)	(5,457)
Minorities	(589)	(614)	(680)	(1,258)	(1,679)	(1,674)		(981)	(1,293)	(1,781)	(2,829)	(3,586)	(4,135)
Net income	3,629	4,410	5,629	5,779	7,756	8,527		(3,963)	(4,250)	(4,705)	5,445	7,916	9,452
EPS	0.18	0.17	0.22	5.03	6.80	7.49					4.74	6.94	8.30
Accretion/(Dilution)											(5.8%)	2.1%	10.8%
DPS	0.18	0.19	0.21	0.55	0.75	0.81					0.55	0.75	0.81
Mvmt in Wkg Cap	80	80	80	967	(244)	(167)					1,047	(164)	(88)
Net capex	(14,157)	(15,247)	(11,275)	(14,907)	(12,334)	(10,664)					(29,064)	(27,581)	(21,939)
Net interest	(1,549)	(1,285)	(1,177)	(2,767)	(2,767)	(2,581)		(4,260)	(4,224)	(4,177)	(8,576)	(8,277)	(7,935)
Dividends net rec'd	490	(366)	(370)								(518)	(1,418)	(1,488)
Tax	(2,472)	(1,684)	(1,737)	(3,262)	(3,556)	(5,003)		1,278	1,267	1,253	(4,456)	(3,973)	(5,487)
FCF pre spectrum	3,246	2,989	8,445	2,049	5,319	7,186		(2,982)	(2,957)	(2,924)	1,304	4,299	11,589
FCF per share	0.13	0.12	0.33	1.78	4.66	6.31					1.14	3.77	10.18
Accretion/(Dilution)											(36.3%)	(19.2%)	61.3%
Dividends paid	(4,614)	(4,813)	(5,115)	(477)	(658)	(903)					(477)	(658)	(903)
Dividends avoided								3,606	3,761	3,997			
Dividends % of FCF	142.1%	161.0%	60.6%	23.3%	12.4%	12.6%					36.6%	15.3%	7.8%
Net debt/pensions	(19,855)	(22,362)	(19,030)	(68,376)	(62,999)	(54,785)	(84,862)	(84,238)	(83,434)	(82,361)	(172,469)	(168,796)	(156,176)
Dil Shares, y/e				1,216	1,216	1,216					1,216	1,216	1,216
Dil Shares, avg	25,732	25,781	25,845	1,149	1,141	1,139					1,149	1,141	1,139
Net debt/EBITDA	0.95	1.04	0.83	3.11	2.60	2.14					4.02	3.69	3.22

Source: Citi Research Estimates

In the high multiple scenario, we assume that Vodafone gears up to 3x FY15E EBITDA (pre Project Spring) and Softbank buys 60% of Vodafone's equity for cash, retaining all the assets, as before. Both the cash return and the purchase are assumed to be at £2.88/share. This requires new debt of £30.6bn (\$49.3bn) for the buyback and of another £34.3bn (\$55.2bn) for the purchase of control at an assumed funding cost of 5.1%. With no synergy in the first year post Project Spring (2016) this is highly accretive to FCF/share on our estimates and 2% accretive to EPS; however, we recognize that the scale of debt needed means that at this price a bidder wishing to proceed would be likely to substitute stock for some of the cash deployed.

High scenario: 7.0x FY15 EBITDA, for 60% post gearing up

Figure 18. SoftBank High Multiple Scenario – 7.0x EBITDA for Core Vodafone
£m

Vodafone			SoftBank		
Core EV/EBITDA		7.0x	Equity stake in Vodafone		60%
EBITDA, excl Project Spring (FY15)	(£m)	13,543	Post deal VOD net debt/EBITDA		3.0x
Enterprise Value	(£m)	94,804			
Net (debt) & pensions (Mar 14)	(£m)	(10,067)	Debt raise at Vodafone	(£m)	30,564
Minorities	(£m)	(6,314)	New debt to acquire stake	(£m)	34,264
Associates	(£m)	1,396			
Tax assets (NPV)	(£m)	7,851	Vodafone post deal		
Market value	(£m)	87,671	Market value	(£m)	57,107
Number of shares pre consol	(m)	48,463	Net debt & pensions	(£m)	20,497
Core value per share	(£)	1.81	Minorities & associates	(£m)	(4,918)
VZW distribution per share	(£)	1.08	Total EV	(£m)	72,686
VOD per share	(£)	2.88			
			EPS accretion	2015	2016
			FCF accretion	(7.4%)	1.9%
				(36.7%)	47.7%

Source: Citi Research Estimates

Figure 19. Softbank High Multiple Scenario – outcome (\$m, year to Dec)

	2014E	2015E	2016E	2014E	2015E	2016E
Share price	¥7,740					
	Pre deal			Post deal		
Market cap	93,947	93,947	93,947	93,947	93,947	93,947
Net debt & pension	68,376	62,999	54,785	193,087	190,424	178,863
Minorities/associates	264	264	264	45,018	45,018	45,018
Enterprise value	162,587	157,210	148,996	332,053	329,389	317,829
EV/EBITDA	7.4x	6.5x	5.8x	7.7x	7.2x	6.5x
P/E	16.3x	12.1x	11.0x	20.1x	13.2x	10.9x
FCF Yield	2.2%	5.7%	7.6%	0.4%	3.5%	11.2%
Accretion/(dilution):						
EV/EBITDA				(4.7%)	(9.9%)	(11.1%)
P/E				(19.2%)	(8.4%)	0.9%
FCF Yield				(83.5%)	(38.2%)	46.5%

Source: Citi Research Estimates

Figure 20. High multiple scenario financial impact – 5.5x EBITDA for Core Vodafone, \$m, year to Dec

Year to Dec	Vod			SB			Finan			Comb			
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	
Revenue	70,868	71,377	72,093	75,401	80,033	81,369				146,270	151,410	153,463	
EBITDA	20,853	21,492	22,924	22,018	24,220	25,601				42,872	45,712	48,525	
EBIT	7,556	7,737	9,104	11,495	13,202	14,800				19,051	20,939	23,904	
Associates	88	91	95	1,182	1,937	2,262	Rate			1,270	2,028	2,358	
Net interest	(1,557)	(1,291)	(1,182)	(2,767)	(2,767)	(2,581)	5.1%	(5,364)	(5,378)	(5,383)	(9,688)	(9,437)	(9,146)
Tax	(1,869)	(1,513)	(1,708)	(3,262)	(3,556)	(5,003)	30%	1,609	1,614	1,615	(3,522)	(3,456)	(5,096)
Minorities	(589)	(614)	(680)	(1,258)	(1,679)	(1,674)		(981)	(1,293)	(1,781)	(2,829)	(3,586)	(4,135)
Net income	3,629	4,410	5,629	5,779	7,756	8,527		(4,736)	(5,058)	(5,549)	4,673	7,108	8,607
EPS	0.18	0.17	0.22	5.03	6.80	7.49					4.07	6.23	7.56
Accretion/(Dilution)											(19.2%)	(8.4%)	0.9%
DPS	0.18	0.19	0.21	0.55	0.75	0.81		0.55	0.75	0.81	0.55	0.75	0.81
Mvmt in Wkg Cap	80	80	80	967	(244)	(167)					1,047	(164)	(88)
Net capex	(14,157)	(15,247)	(11,275)	(14,907)	(12,334)	(10,664)					(29,064)	(27,581)	(21,939)
Net interest	(1,549)	(1,285)	(1,177)	(2,767)	(2,767)	(2,581)		(5,364)	(5,378)	(5,383)	(9,680)	(9,431)	(9,141)
Dividends net rec'd	490	(366)	(370)	0	0	0					(712)	(1,620)	(1,703)
Tax	(2,472)	(1,684)	(1,737)	(3,262)	(3,556)	(5,003)		1,609	1,614	1,615	(4,125)	(3,627)	(5,125)
FCF pre spectrum	3,246	2,989	8,445	2,049	5,319	7,186		(3,755)	(3,765)	(3,768)	337	3,289	10,530
FCF per share	0.13	0.12	0.33	1.78	4.66	6.31					0.29	2.88	9.25
Accretion/(Dilution)											(83.5%)	(38.2%)	46.5%
Dividends paid	(4,614)	(4,813)	(5,115)	(477)	(658)	(903)					(477)	(658)	(903)
Dividends avoided								3,411	3,559	3,782	3,411	3,559	3,782
Dividends % of FCF	142.1%	161.0%	60.6%	23.3%	12.4%	12.6%					141.4%	20.0%	8.6%
Net debt/pensions	(19,855)	(22,362)	(19,030)	(68,376)	(62,999)	(54,785)	(104,512)	(104,856)	(105,062)	(105,048)	(193,087)	(190,424)	(178,863)
Dil Shares, y/e				1,216	1,216	1,216					1,216	1,216	1,216
Dil Shares, avg	25,732	25,781	25,845	1,149	1,141	1,139					1,149	1,141	1,139
Net debt/EBITDA	0.95	1.04	0.83	3.11	2.60	2.14					4.50	4.17	3.69

Source: Citi Research Estimates

Figure 21. High multiple scenario financial impact – 7.0x EBITDA for Core Vodafone, \$m, year to Dec

Year to Dec	Vod			SB			Finan			Comb			
	2014E	2015E	2016E	2014E	2015E	2016E		2014E	2015E	2016E	2014E	2015E	2016E
Revenue	70,868	71,377	72,093	75,401	80,033	81,369					146,270	151,410	153,463
EBITDA	20,853	21,492	22,924	22,018	24,220	25,601					42,872	45,712	48,525
EBIT	7,556	7,737	9,104	11,495	13,202	14,800					19,051	20,939	23,904
Associates	88	91	95	1,182	1,937	2,262	Rate				1,270	2,028	2,358
Net interest	(1,557)	(1,291)	(1,182)	(2,767)	(2,767)	(2,581)	5.0%	(5,258)	(5,268)	(5,269)	(9,581)	(9,326)	(9,031)
Tax	(1,869)	(1,513)	(1,708)	(3,262)	(3,556)	(5,003)	30%	1,577	1,580	1,581	(3,554)	(3,489)	(5,130)
Minorities	(589)	(614)	(680)	(1,258)	(1,679)	(1,674)		(981)	(1,293)	(1,781)	(2,829)	(3,586)	(4,135)
Net income	3,629	4,410	5,629	5,779	7,756	8,527		(4,661)	(4,981)	(5,469)	4,747	7,185	8,687
EPS	0.18	0.17	0.22	5.03	6.80	7.49					4.13	6.30	7.63
Accretion/(Dilution)											(17.9%)	(7.4%)	1.9%
DPS	0.18	0.19	0.21	0.55	0.75	0.81		0.55	0.75	0.81	0.55	0.75	0.81
Mvmt in Wkg Cap	80	80	80	967	(244)	(167)					1,047	(164)	(88)
Net capex	(14,157)	(15,247)	(11,275)	(14,907)	(12,334)	(10,664)					(29,064)	(27,581)	(21,939)
Net interest	(1,549)	(1,285)	(1,177)	(2,767)	(2,767)	(2,581)		(5,258)	(5,268)	(5,269)	(9,573)	(9,320)	(9,027)
Dividends net rec'd	490	(366)	(370)	0	0	0					490	(366)	(370)
Tax	(2,472)	(1,684)	(1,737)	(3,262)	(3,556)	(5,003)		1,577	1,580	1,581	(4,157)	(3,660)	(5,159)
FCF pre spectrum	3,246	2,989	8,445	2,049	5,319	7,186		(3,680)	(3,687)	(3,688)	1,614	4,620	11,943
FCF per share	0.13	0.12	0.33	1.78	4.66	6.31					1.40	4.05	10.49
Accretion/(Dilution)											(21.2%)	(13.1%)	66.2%
Dividends paid	(4,614)	(4,813)	(5,115)	(477)	(658)	(903)					(477)	(658)	(903)
Dividends avoided								3,411	3,559	3,782	3,411	3,559	3,782
Dividends % of FCF	142.1%	161.0%	60.6%	23.3%	12.4%	12.6%					29.6%	14.2%	7.6%
Net debt/pensions	(19,855)	(22,362)	(19,030)	(68,376)	(62,999)	(54,785)	(104,512)	(104,781)	(104,910)	(104,816)	(193,012)	(190,271)	(178,631)
Dil Shares, y/e				1,216	1,216	1,216					1,216	1,216	1,216
Dil Shares, avg	25,732	25,781	25,845	1,149	1,141	1,139					1,149	1,141	1,139
Net debt/EBITDA	0.95	1.04	0.83	3.11	2.60	2.14					4.50	4.16	3.68

Source: Citi Research Estimates

Impact of Potential Acquisition Intangibles on EPS

In this report we conduct a quick analysis of the impact any acquisition of Vodafone could have on the EPS of AT&T and SoftBank.

When considering a major acquisition, the prospective buyer would generally weigh up synergies via the acquisition (customer base expansion, cost reduction through the joint procurement of handsets and equipment, etc.) against anticipated risks (an increase in interest-bearing debt, interest costs, intangible asset depreciation costs, etc.). Notably, we believe that it generally takes time for synergy effects to emerge due to changes to organizational and operating structures. However, once an acquisition is completed, the buyer is required to book goodwill and intangible assets immediately. **Accordingly, there is a risk that EPS could fall significantly in the short term because of a large increase in amortization of intangible assets, including customer lists associated with the transaction.**

For reference, customer assets included in intangible assets are the main source of depreciation related to the SoftBank (which reports under IFRS) acquisition of Sprint. The depreciation period is eight years for postpaid assets and four years for prepaid assets. Depreciation is done on a monthly basis using the sum of the years' digits method.

Tax Implications of a Potential Transaction

Vodafone has built up £106bn (\$161bn) in tax losses, largely from corporate actions following the acquisition of Mannesmann in 2000.

Vodafone says that these losses would be available to a potential acquirer depending upon the jurisdiction and structure of a transaction.

If use of Vodafone's tax losses can be accelerated to £1bn pa, this could add £2.5bn in value or 5p per Vodafone share.

Vodafone's tax losses and the ability of multinationals to optimize their tax affairs could be a significant dimension in any deal and release additional value. Vodafone has substantial tax losses (Figure 23), largely built up via corporate actions following the acquisition of Mannesmann in 2000. At the end of March 2013, Vodafone had £106bn (\$161bn) in unused losses, of which only £9bn (\$13bn) were at that point recognized by tax assets on the balance sheet. At its fiscal 2Q14 results it increased its balance sheet tax assets by £17.7bn bringing them up to £20.2bn (Figure 24).

Vodafone says that these losses would be available to a potential acquirer depending upon the jurisdiction and structure of a transaction. Ex a transaction, we value the tax assets at an NPV of £7.9bn (16p/share) assuming that they are used evenly over 30 years at around £0.67bn pa. This assumes that Vodafone uses a financing company in Luxembourg and offsets the interest payments made to it against the profits generated in countries of operation. We exclude the net operating and capital losses that Vodafone has not recognized on its balance sheet.

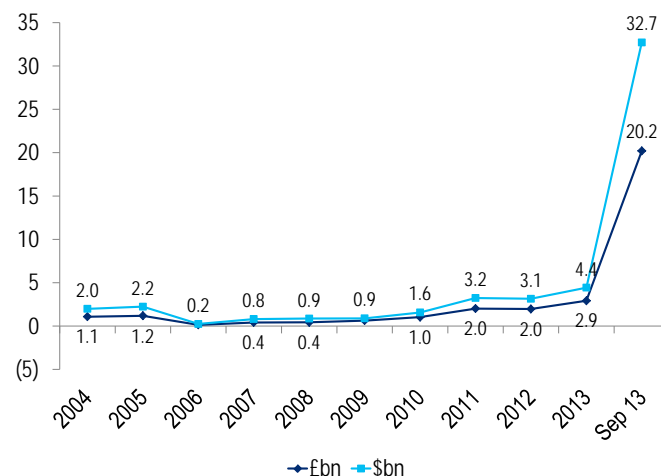
In principle, a bidder could benefit from the Vodafone tax assets by accelerating the pace at which the Luxembourg losses are used up. For example, if the tax losses can be utilized over 20 years at a rate of £1bn pa (rather than 30 years at £0.67bn pa) then this could add £2.5bn in value or 5p per Vodafone share. In principle, this could be done by arranging loans from the Luxembourg financing company into the acquirer's home market operation, for example.

Figure 22. Vodafone's tax losses in total
£bn, year to March



Source: Company Reports

Figure 23. Vodafone's recognized tax assets
£/\$bn, year to March



Source: Company Reports

Figure 24. Vodafone tax losses, recognized and unrecognised, year to March

£m	Recog 2011	Unrecog 2011	Total 2011	Recog 2012	Unrecog 2012	Total 2012	Recog 2013	Unrecog 2013	Total 2013	Comments
Germany	3,892	13,389	17,281	3,804	11,547	15,351	3,236	12,346	15,582	Available to use against German federal and trade tax liabilities
UK subsidiaries	0	1,907	1,907	0	1,907	1,907	0	7,104	7,104	Available for offset against future capital gains
Overseas holdcos	3,968	78,757	82,725	4,043	68,653	72,696	4,534	66,110	70,644	Arising from revaluations of investments for local GAAP purposes
Overseas CWW holdcos	0	0	0	0	0	0	0	7,642	7,642	Acquired with CWW
Other	222	798	1,020	569	3,313	3,882	996	4,039	5,035	
Total	8,082	94,851	102,933	8,416	85,420	93,836	8,766	97,241	106,007	
In US\$	12,955	152,041	164,996	13,447	136,480	149,926	13,311	147,656	160,966	

Source: Company Reports and Citi Research Estimates

In the case of a US bidder there is a catch, which is that as US repatriation tax is applied to any profits paid from a foreign subsidiary to the US top company, any tax benefit of offshoring US profits would be negated once repatriated.

US Tax on Repatriated Profits

However, in the case of a US bidder there is a catch, which is the US tax on repatriation of foreign earnings. An American company's foreign subsidiary returning profits as a dividend sees the dividend taxed at 35% minus any taxes paid abroad. Consequently, any benefit from offshoring of US taxable profit would be lost if it were necessary to repatriate overseas profits to the US, for example to pay a dividend.

This provides a downside risk to any acquisition of Vodafone for AT&T, in our view, unless it wished to re-domicile abroad, through a reverse takeover structure or creation of a new holding company (possibly in the UK, in our view). This would not necessarily affect its listing in New York or shareholders – as Liberty Global, which has re-domiciled its top company to the UK, has shown – but it would be a radical step for such a large US blue chip. We believe the base case for an AT&T acquisition of Vodafone would be to remain a US-domiciled company, but we cannot dismiss the possibility that AT&T could consider creating structural opportunities to improve its tax efficiency.

A US bidder may be able to apply an asset purchase structure to create tax deductible goodwill to offset against US tax on repatriation of foreign earnings, although given the complexity of this undertaking it is unclear to us whether this could have undesired consequences in other areas.

Multinational Tax Management

Corporate tax rates of 40% in the USA and 38.01% (falling to 35.64% after March 2015) in Japan are among the world's highest. Given that, there is an incentive to reduce the group average tax rate by using lower tax jurisdictions, which becomes easier in a multinational group with extensive international operations - this could potentially be beneficial for either AT&T or SoftBank.

As Figure 26 shows (from our Accounting and Valuation team's report [Taxing Times - Are corporate tax planning structures at risk?](#), 27 September, 2013), numerous European companies pay less than the weighted average tax rate of the jurisdictions that they operate in. They achieve this through moving profit around the group in various ways, including via intra-group loans and payments to central purchasing functions and for intellectual property. A case in point is the structure used by Vodafone to shield some of the tax it has been liable for as a partner in Verizon Wireless through an intra-group loan from a Luxembourg financing company to its US holding group.

Vodafone's weighted average tax rate is around 30% on our estimate with its reported tax rate in the mid to high twenties according to management, although we expect it to fall at some point after Italy is wholly owned and can increase its locally held debt.

Vodafone tax assets in Luxembourg and Germany

In general, we believe that a bidder could effect a structure for an acquisition of Vodafone that keeps Vodafone's Luxembourg losses in place and it may be able to keep most of Vodafone's German losses.

The bulk of the tax assets which Vodafone recently recognized on its balance sheet are in Luxembourg and Germany. In general, we believe Luxembourg tax assets would be unaffected by any change of control, unless the acquisition is solely for the purpose of exploiting those tax losses. The general case in Germany is the opposite. Any change of control where a purchaser takes a stake of more than 50% somewhere in the holding company stack gives rise to all of the tax losses being disregarded. However, there are exceptions and structures which can be adopted to avoid that.

Multinational tax optimization (European companies)

Figure 25. Weighted average expected P&L tax rate compared to forecast P&L tax rate (1st forecast year)

Name	WAV expected tax rate	FY1E P&L tax rate	Difference	Name	WAV expected tax rate	FY1E P&L tax rate	Difference
Basilea Pharmaceutica AG	29%	(0%)	(29%)	Straumann Holding AG	32%	17%	(14%)
Renault SA	30%	1%	(29%)	Senior	34%	20%	(14%)
Lancashire Holdings	31%	3%	(28%)	Tecnicas Reunidas	28%	14%	(14%)
CIR - Compagnie Industriale Riunite SpA	30%	2%	(28%)	Diageo	32%	18%	(14%)
Algeta	28%	0%	(28%)	RHI	31%	17%	(14%)
3i Group Plc	29%	1%	(28%)	Paddy Power	27%	13%	(14%)
Lamprell	30%	2%	(28%)	Cobham	34%	20%	(14%)
Air France-KLM	30%	3%	(28%)	Colt Group SA	28%	15%	(14%)
Jazztel	30%	5%	(25%)	APR Energy	32%	18%	(14%)
Centamin Egypt Limited	25%	0%	(25%)	DSM NV	28%	15%	(14%)
Groupe Eurotunnel	28%	4%	(25%)	Credit Agricole SA	31%	17%	(13%)
London Mining	30%	5%	(25%)	Lonza Group AG	32%	19%	(13%)
Marshalls PLC	23%	0%	(23%)	Ahold	34%	21%	(13%)
Severn Trent PLC	25%	1%	(23%)	GKN Plc	31%	18%	(13%)
Big Yellow	23%	0%	(23%)	GAM Holding Ltd	29%	15%	(13%)
Seadrill	28%	6%	(23%)	Geberit AG	27%	14%	(13%)
BBA Aviation	35%	14%	(22%)	Sampo Oyj	26%	13%	(13%)
ASML Holding NV	27%	5%	(22%)	Wolters Kluwer NV	33%	20%	(13%)
STMicroelectronics	25%	4%	(21%)	Micro Focus International Plc	34%	21%	(13%)
Mediaset España SA	30%	9%	(21%)	Pearson PLC	34%	21%	(13%)
Randgold Resources Ltd	27%	6%	(21%)	Richemont	30%	17%	(13%)
AB-InBev	33%	13%	(20%)	Continental AG	30%	18%	(12%)
Novartis AG	34%	14%	(20%)	Invensys	32%	20%	(12%)
Lagardere Groupe	30%	11%	(19%)	Amlin Plc	30%	18%	(12%)
Sonova Holdings AG	33%	14%	(19%)	Ryanair	25%	12%	(12%)
Salzgitter AG	30%	11%	(19%)	Catlin Group Ltd	25%	13%	(12%)
UBM plc	32%	13%	(19%)	Swiss Re	32%	19%	(12%)
Portugal Telecom	30%	11%	(19%)	Ladbrokes	24%	12%	(12%)
Zooplus	29%	10%	(19%)	Givaudan AG	30%	18%	(12%)
Delhaize	37%	19%	(18%)	Daimler AG	32%	20%	(12%)
Hiscox Ltd	32%	14%	(18%)	Banco BPI	28%	17%	(12%)
Carillion	24%	6%	(18%)	Go Ahead Group	30%	19%	(12%)
Actelion Ltd	33%	15%	(18%)	Roche Holding AG	33%	22%	(12%)
Infineon Technologies	30%	13%	(17%)	Babcock	25%	13%	(12%)
Freenet	30%	13%	(17%)	William Hill	24%	12%	(11%)
Tate and Lyle	37%	20%	(17%)	Meggitt Plc	33%	22%	(11%)
Henderson Group Plc	25%	8%	(17%)	Bank of Ireland	21%	10%	(11%)
Drax Group Plc	23%	6%	(17%)	Yara International	31%	20%	(11%)
QinetiQ	31%	15%	(16%)	CRH PLC	31%	20%	(11%)
Nyrstar NV	29%	13%	(16%)	Regus	31%	20%	(11%)
SES S.A.	29%	13%	(16%)	Investec PLC	30%	20%	(10%)
Sanofi SA	33%	17%	(16%)	Wolfson	30%	20%	(10%)
Dufry AG	34%	18%	(16%)	Sorin	32%	22%	(10%)
Banco Bilbao Vizcaya Argentaria SA	31%	15%	(16%)	Zurich Airport	30%	21%	(10%)
Akzo Nobel NV	29%	14%	(16%)	Ipsen	30%	20%	(10%)
Syngenta AG	34%	18%	(16%)	Moneysupermarket	23%	13%	(10%)
Ziggo N.V.	25%	10%	(15%)	Swedish Match AB	29%	19%	(10%)
Genel Energy	15%	0%	(15%)	Alstom	30%	20%	(10%)
EFG International	28%	13%	(15%)	Husqvarna	32%	22%	(10%)
Ferrovial, S.A.	27%	13%	(15%)	Kingspan	26%	17%	(10%)

Source: dataCentral, DataStream, IMF, KPMG. Citi Research analyst forecasts of P&L tax rates. Forecast data as of 25 September 2013. We have excluded companies with forecast tax rates that are negative.

Vodafone Valuation

To calculate our new target price of 260p (from 235p) ex 11p in dividend, we now take the average of our 'Transaction' SOP of 290p, which reflects a bid premium, and our 'Go-it-alone' SOP of 250p, with both now including tax assets at an NPV of £7.9bn or 16p/share, and then deduct the dividend.

Our 'transaction' sum of the parts valuation takes into account the likely premium that we would expect for Vodafone to concede control, which, with the VZW stake priced to market, we calculate comes to 289p per share, which we round to 290p. We include our NPV of the recognized tax assets booked at September 2013 (£7.9bn, 16p/share). In valuing the losses, we assume an average tax rate of 30% and that they are consumed evenly over 30 years. In full this implies £0.67bn of tax saved pa.

The forecasts used for both our sum of the parts valuations include a total of around £600m in additional opex in FY15 for Project Spring and we allow for the long-term benefit of the investment through slightly higher multiples than some typical peers. Key components of the 'Transaction' SOP, based on our calendar 2014 estimates, are:

- German mobile 7.5x EBITDA
- German cable (KDG) 10x EBITDA
- UK including CWW 6.5x EBITDA
- Rest of Europe including Italy 6.0x EBITDA
- India 10x EBITDA
- Vodacom 10% premium to the market price implying 8x EBITDA (South Africa, Tanzania, Mozambique, Lesotho, Democratic Republic of Congo)
- Turkey 8x EBITDA
- Egypt 6.5x EBITDA
- Tax asset assumed to be used evenly over 30 years implying a discount to 39% of its book value at £7.9bn or 16p/share.
- The Verizon Wireless distribution comes to £52.4bn or 108p/share including the stock component of £37.6bn or 78p.

The Go-it-alone sum of the parts reflects approximate market multiples, allowing for the peak burden of Project Spring, and includes our NPV estimate for the tax assets and the Verizon Wireless distribution calculated on the same basis as for the Transaction SOP.

Transaction sum of the parts for Vodafone

Figure 26. Vodafone transaction sum of the parts valuation comes to 289p (£m)

	Driver (2014)/ Share Price	Market Capitalis'n £m	Net (Debt) Mar 2015 £m	EV £m	VOD Stake Mar 2015 %	VOD Equity £m	VOD Equity p/share	Share of equity %
Europe								
Germany (legacy)	7.5x EBITDA	17,524	0	17,524	100.0%	17,524	36.2	12.5%
Germany (KDG)	10.0x EBITDA	6,266	(2,362)	8,628	76.6%	4,798	9.9	3.4%
Total Germany	8.2 x EBITDA	23,790	(2,362)	26,152	93.8%	22,322	46.1	15.9%
UK	6.5x EBITDA	6,659	0	6,659	100.0%	6,659	13.7	4.8%
CWW	6.5x EBITDA	2,304	0	2,304	100.0%	2,304	4.8	1.6%
Netherlands	6.0x EBITDA	2,940	0	2,940	100.0%	2,940	6.1	2.1%
Czech Republic	6.0x EBITDA	440	0	440	100.0%	440	0.9	0.3%
Ireland	6.0x EBITDA	1,353	0	1,353	100.0%	1,353	2.8	1.0%
Hungary	6.0x EBITDA	1,229	0	1,229	100.0%	1,229	2.5	0.9%
Romania	6.0x EBITDA	1,379	0	1,379	100.0%	1,379	2.8	1.0%
Italy	6.0x EBITDA	11,351	0	11,351	100.0%	11,351	23.4	8.1%
Spain	6.0x EBITDA	4,651	0	4,651	100.0%	4,651	9.6	3.3%
Greece	6.0x EBITDA	993	0	993	99.9%	992	2.0	0.7%
Portugal	6.0x EBITDA	1,835	0	1,835	100.0%	1,835	3.8	1.3%
Albania	6.0x EBITDA	360	0	360	99.9%	360	0.7	0.3%
Malta	€800/sub	166	0	166	100.0%	166	0.3	0.1%
Total Europe	7.3 x EBITDA	59,451	(2,362)	61,813	97.5%	57,981	119.6	41.4%
AMAP								
India	10.0x EBITDA	12,778	(789)	13,567	100.0%	12,778	26.4	9.1%
South Africa (Vodacom)	SAR 121 +10%	11,973	(969)	12,942	65.0%	7,782	16.1	5.6%
Australia	5.0x EBITDA	729	0	729	50.0%	365	0.8	0.3%
Egypt	6.5x EBITDA	2,904	(246)	3,151	54.9%	1,595	3.3	1.1%
Fiji	€200 per pop	246	97	150	49.0%	121	0.2	0.1%
Ghana	€250/sub	488	(150)	637	70.0%	341	0.7	0.2%
New Zealand	7.0x EBITDA	2,412	0	2,412	100.0%	2,412	5.0	1.7%
Qatar	€500 per pop	389	0	389	23.0%	89	0.2	0.1%
Turkey	8.0x EBITDA	2,651	0	2,651	100.0%	2,651	5.5	1.9%
Total AMAP	8.3 x EBITDA	34,570	(2,058)	36,628	81.4%	28,133	58.1	20.1%
Associates & investments								
Kenya (Safaricom)	KES 9.8	2,837	425	2,412	35.0%	993	2.0	0.7%
Bharti	INR 333 -30%	9,157		9,157	4.4%	403	0.8	0.3%
Total		106,015	(3,995)	110,009	82.5%	87,511	180.6	62.5%
Other								
Tax assets discounted over 30 yrs		7,851	0	7,851	100.0%	7,851	16.2	5.6%
Net debt, Mar 14		(7,331)	(7,331)	0	100.0%	(7,331)	(15.1)	(5.2%)
Pension liability		(629)	(629)	0	100.0%	(629)	(1.3)	(0.4%)
Subtotal/Average		(109)	(7,960)	7,851	100.0%	(109)	(0.2)	(0.1%)
Core Vodafone		105,906	(11,954)	117,861		87,402	180	62.4%
Verizon cash distribution		14,947		14,947		14,947	30.8	10.7%
Verizon shares distribution	\$50.0	37,618		37,618		37,618	77.6	26.9%
Total sum of the parts (cum div)			48.46 bn shares			139,968	289 per share	

Source: Company Reports and Citi Research Estimates

Go-it-alone sum of the parts for Vodafone

Figure 27. Vodafone sum of the parts valuation comes to 250p(£m)

	Driver (2014)/ Share Price	Market Capitalis'n £m	Net (Debt) Mar 2014 £m	EV £m	VOD Stake Mar 2014 %	VOD Equity £m	VOD Equity p/share	Share of equity %
Europe								
Germany (legacy)	6.0x EBITDA	14,019	0	14,019	100.0%	14,019	28.9	11.6%
Germany (KDG)	9.0x EBITDA	5,403	(2,362)	7,765	76.6%	4,137	8.5	3.4%
Total Germany	6.8 x EBITDA	19,422	(2,362)	21,784	93.5%	18,156	37.5	15.0%
UK	5.0x EBITDA	5,123	0	5,123	100.0%	5,123	10.6	4.2%
CWW	5.0x EBITDA	1,772	0	1,772	100.0%	1,772	3.7	1.5%
Netherlands	4.5x EBITDA	2,205	0	2,205	100.0%	2,205	4.6	1.8%
Czech Republic	4.5x EBITDA	330	0	330	100.0%	330	0.7	0.3%
Ireland	4.5x EBITDA	1,015	0	1,015	100.0%	1,015	2.1	0.8%
Hungary	4.5x EBITDA	921	0	921	100.0%	921	1.9	0.8%
Romania	4.5x EBITDA	1,034	0	1,034	100.0%	1,034	2.1	0.9%
Italy	4.5x EBITDA	8,514	0	8,514	100.0%	8,514	17.6	7.0%
Spain	4.5x EBITDA	3,489	0	3,489	100.0%	3,489	7.2	2.9%
Greece	4.0x EBITDA	662	0	662	99.9%	662	1.4	0.5%
Portugal	4.0x EBITDA	1,224	0	1,224	100.0%	1,224	2.5	1.0%
Albania	4.0x EBITDA	240	0	240	99.9%	240	0.5	0.2%
Malta	€800/sub	166	0	166	100.0%	166	0.3	0.1%
Total Europe	5.7 x EBITDA	46,116	(2,362)	48,478	97.3%	44,849	92.5	37.0%
AMAP								
India	7.0x EBITDA	8,708	(789)	9,497	100.0%	8,708	18.0	7.2%
South Africa (Vodacom)	SAR 121	10,884	(969)	11,853	65.0%	7,075	14.6	5.8%
Australia	4.5x EBITDA	656	0	656	50.0%	328	0.7	0.3%
Egypt	5.5x EBITDA	2,420	(246)	2,666	54.9%	1,328	2.7	1.1%
Fiji	€200 per pop	246	97	150	49.0%	121	0.2	0.1%
Ghana	€250/sub	488	(150)	637	70.0%	341	0.7	0.3%
New Zealand	6.0x EBITDA	2,068	0	2,068	100.0%	2,068	4.3	1.7%
Qatar	€500 per pop	389	0	389	23.0%	89	0.2	0.1%
Turkey	7.0x EBITDA	2,319	0	2,319	100.0%	2,319	4.8	1.9%
Total AMAP	6.8 x EBITDA	28,178	(2,058)	30,236	79.4%	22,377	46.2	18.5%
Associates & investments								
Kenya (Safaricom)	KES 9.8	2,837	425	2,412	35.0%	993	2.0	0.8%
Bharti	INR 333 -30%	9,157		9,157	4.4%	403	0.8	0.3%
Total		86,288	(3,995)	90,283	79.5%	68,623	141.6	56.7%
Other liabilities								
Tax assets discounted over 30 yrs		7,851	0	7,851	100.0%	7,851	16.2	6.5%
Net debt, Mar 14		(7,331)	(7,331)	0	100.0%	(7,331)	(15.1)	(6.1%)
Pension liability		(629)	(629)	0	100.0%	(629)	(1.3)	(0.5%)
Subtotal/Average		(109)	(7,960)	7,851	100.0%	(109)	(0.2)	(0.1%)
Core Vodafone		86,179	(11,954)	98,134		68,514	141	56.6%
Verizon cash distribution		14,947		14,947		14,947	30.8	12.3%
Verizon shares distribution	\$50.0	37,618		37,618		37,618	77.6	31.1%
Total sum of the parts (cum div)			48.46	bn shares		121,080	250	per share

Source: Company Reports and Citi Research Estimates

Vodafone's spectrum position

Vodafone has extensive spectrum across its operations and in particular we think there is an unsung advantage in its strong TD-LTE (unpaired) spectrum position.

Positioning for TD-LTE may suit Softbank

Following the 4G auction rounds Vodafone holds 25MHz of unpaired 2.6GHz spectrum in Germany and the UK. Indeed in the UK it has around 55% of all of the 2.6GHz paired and unpaired spectrum, while in Germany it has 50% of all the unpaired and 30% of the paired at the same level. Elsewhere in Europe, it has 20MHz in Spain, 25MHz in Portugal and 15MHz in Romania.

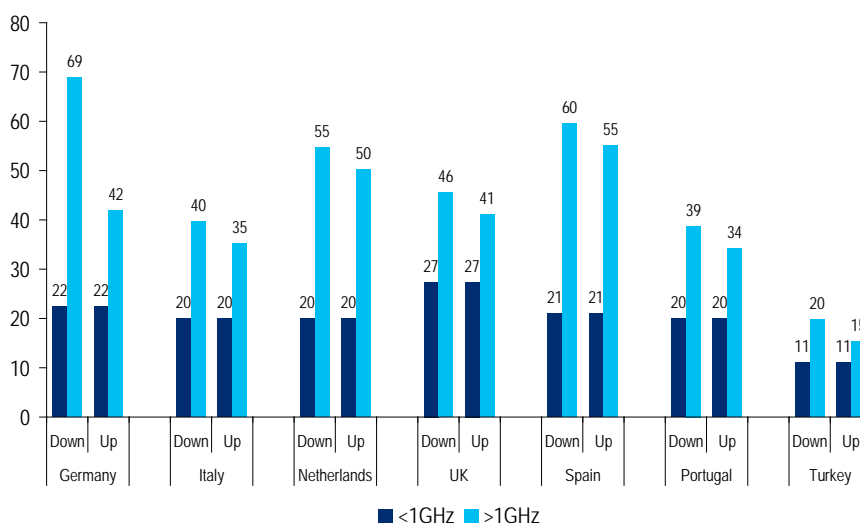
While Vodafone may be intending to use its TD-LTE spectrum for backhaul from small cells or mesh cell architectures to improve coverage density, the technology's primary use on deployment today is for end-user service. In dense sites, TD-LTE can provide a high-speed, high-capacity service that we believe competitors will find tough to match, albeit at some cost to battery life and range of the cell vs LTE FDD.

Softbank is committed to TD-LTE for the Japanese market, where it has 30MHz of unpaired spectrum between 2.5GHz and 2.6GHz and now, through Sprint, the US market where its holdings are much larger.

Limited life spectrum holdings

US spectrum holdings typically have an indefinite life, and can be valued as such, but that is not common in the rest of the world. However, in Vodafone's case this valuation disadvantage is comparatively small right now, as its spectrum portfolio is freshly acquired or renewed. 4G issuance has only recently been completed in European countries – although Greece, which is a Vodafone country, Norway and Belgium, are still to go. In addition, much of its bank of 2G spectrum has been renewed or extended.

Figure 28. Vodafone's extensive spectrum holdings are a key part of its valuation
MHz, with unpaired assumed 19/1 downlink/uplink



Source: Company Reports and Citi Research Estimates

Vodafone holds extensive TD-LTE spectrum in Europe which could suit Softbank's strategy from Japan and the US.

Vodafone's spectrum situation in different major markets

Germany: renewal risk especially on 900MHz

In 2010, the 800MHz, 2GHz and 2.6GHz spectrum was auctioned, Vodafone paid €1.4bn for 2x10MHz at 800MHz, 2x5MHz at 2GHz and 2x20MHz at 2.6GHz and some unpaired spectrum. The new licenses are for 15 years, expiring at the end of 2025. The 800MHz spectrum came with requirements to roll-out coverage in rural areas that have now been fulfilled. Vodafone has the same spectrum holdings as DT at 800MHz and 900MHz, it has less at 1800MHz and more at 2.1GHz and 2.6GHz.

In 2016, the 900MHz and 1800MHz licenses expire, the regulator is deciding how the licenses should be renewed with the most likely outcome an auction. This could be delayed until 2020 when the 700MHz may be available to be auctioned and the 2.1GHz licenses expire.

In Germany, the key question is whether the E-Plus/O2 merger is approved and what the subsequent remedies would be, with returning some spectrum being a likely component. There is a risk this returned spectrum together with the 900MHz and 1800MHz renewals are used to introduce a new entrant.

United Kingdom: renewal under new annual fee, minimal risk

The 800MHz and 2600MHz ranges were auctioned earlier in 2013 on 20-year licences. This was a multi-band auction which cost Vodafone £802.9m and which we estimate came to £0.46 per MHz (\$0.74) for 800MHz and £0.055 per MHz (\$0.09) for 2600MHz (including unpaired). The 3G 2100MHz licences expire in 2020.

Renewal of the 900MHz and 1800MHz licences is now under consultation by the regulator Ofcom. This is likely to result in annual fees for the operators for these ranges rather than a lump sum payment, which may be constructive as appearing in EBITDA annually they will be less of a sunk cost and may prompt more disciplined pricing.

Ofcom is proposing to charge £1.99m per MHz pa for 900MHz spectrum and £1.19m pa per MHz for 1800MHz spectrum plus RPI with a starting point in March 2013 when the 4G auction completed. These, it argues, are equivalent to upfront lump sum payments of £25m per MHz (£0.40/\$0.64 per MHz per pop) for 900MHz spectrum and £15m per MHz (£0.24/\$0.38 per MHz per pop) for 1800MHz. The base year cost for Vodafone is £83.1m. Unsurprisingly, the industry is protesting that the fees are too high and they may be revised (in either direction) before a final decision is made.

Greece 2G renewals done, 4G auction to come next year

The 900MHz and 1800MHz spectrum was renewed in 2011 but the 800MHz spectrum will only be auctioned in 2014. We forecast OTE and Vodafone to spend €120m on the 800MHz auction and see limited bidding risk. There are only three players in the market in Greece. We believe that the risk of a new entrant is low considering the economic situation in Greece and very low mobile prices. Vodafone and Wind Hellas signed a network sharing deal during the summer of 2013, which includes 2G and 3G but not 4G/LTE.

Netherlands: renewals complete at a cost

Vodafone paid €1.38bn in December 2012 to renew and acquire new spectrum (€0.65/MHz/pop, excluding the 2.6GHz range). It acquired 2x10MHz in the 800MHz band, 2x10MHz in the 900MHz band, 2x20MHz in the 1800MHz band and 2x20MHz in the 2100MHz band. All the auctioned licenses will expire in 2030 with exception of the 3G 2.1GHz band, which will expire at the end of 2016. The auction in the Netherlands combined new spectrum with renewals, thereby linking the price of the renewals with what would typically otherwise be the higher price points for fresh spectrum, and limited availability of new spectrum for existing players. This aggressive structure is what lies behind many of the market's concerns about renewal risk on limited life spectrum and availability of investment for network capacity.

Spain: Extended to 2025

In Spain, spectrum issued earlier was extended when the LTE spectrum completed two years ago. Orange and TEF saw their older spectrum ranges extended to 2030 and Vodafone's were extended to 2025.

Business drivers for Vodafone

European markets remain weak but the outlook is improving and Vodafone continues to grow well in emerging markets with its AMAP division (excluding Turkey for now) growing by 5.7% in its fiscal 2Q14. At its 12 November results presentation, management said that it expects an upturn in the business in Europe in the medium term. This, combined with the relatively recent completion of its Europe-wide 4G spectrum, and availability of financing, played a role in the decision to proceed with the hefty business reboot envisaged by the Project Spring investment programme. Over the next 12 months we expect a number of significant deflationary factors to substantially moderate their impact including the migration to the Vodafone Red inclusive bucket plans, MTR and roaming price cuts and the loss of certain MVNO contracts.

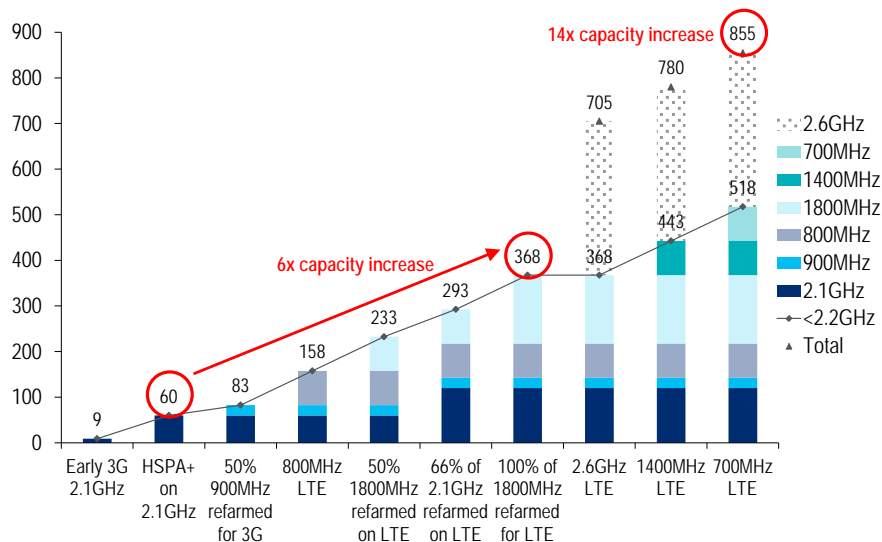
European regulation is pointing generally in the right direction, in our view. The fixed broadband measures seem assured, the competition authorities' stance has eased with respect to in-country mobile consolidation (see: [European Mobile Consolidation - The Austrian Test Case](#)). As a result, we see consolidation in more European mobile markets as both feasible and likely, although given the sensitivities Phase 2 referrals are likely, as in the case of Ireland. The sector specific measures are more patchy but generally helpful, aiming to align spectrum auctions and reduce bureaucracy involved in network deployment and upgrades.

Project Spring: Right decision to create differentiation

Vodafone emphasized that it is already first or equal first in most of its markets for network quality. It does not see Project Spring as being about catching up but rather about creating a noticeable gap in network quality relative to peers. Management did not think all operators would be able to or would want to respond. Some operators may prefer to serve the lower end of the market.

Project Spring is not only a significant capex investment, but also locks Vodafone into a higher opex base by increasing the number of cell sites that it is operating, both macro and micro. This should create a higher-quality network for which customers are willing to pay a premium. The risk is that Vodafone has to incur at least part of the capex, and lock into the higher opex, before customers' willingness to pay becomes clear.

Figure 29. Capacity increase available from re-farming and new spectrum - typical European operator
Cell site capacity in Mbps



Source: Company Reports and Citi Research Estimates

As we argued in our report [Too Much Excess](#), we believe this is the right decision. In Europe, the #1/#2 mobile operators have suffered from a lack of differentiation versus #3/#4 operators, hence they have had to respond to price cuts to defend share over the last 10 years. To change this dynamic, we think the larger operators (including Vodafone) need to increase differentiation so that they can justify charging a higher price for a premium product. There is of course uncertainty, but the alternative is probably continued loss of share and falling market prices.

Scaling the Project Spring Effort

Increased capex – Vodafone will invest £7bn in additional capex until March 2016, with £0.5bn in planned commitments for fiscal 2014 (turning into cash payments in FY15) and the remainder in FY15 and FY16.

This is an increase compared with the £6bn in capex and opex that it had previously announced. We put the capex component at that time at £5.25bn so on that basis Vodafone has increased the Project Spring capex allocation by £1.75bn, as well as accelerating the timeframe by 12 months.

■ **£3bn on European mobile** – Vodafone is targeting to have a clear advantage for voice and 4G, with competitive 3G (meaning at least matching the other best network). This will be primarily be achieved by increasing the number of cell sites:

- Single RAN from 53% of cell sites Sept-13 to 97% by Mar-16.
- Number of 2G sites from 81k Sept-13 to 105k in Mar-16 a 30% increase.
- Increase 3G sites from 72k Sept-13 to 101k by Mar-16.
- Increase 4G cell sites from 11k Sept-13 to 82k by Mar-16.
- Increase sites with high speed backhaul (>1Gbps) from 65% Sept-13 to 98% by Mar-16 of which fibre connected rising to 30% (roughly doubling).

■ **£1.5bn AMAP mobile** – Primarily investing in 3G with some improvement to voice.

- Single RAN from 29% in Sept-13 to 51% by Mar-16.
- 2G sites from 154k to 177k
- 3G sites from 27k to 44k
- 4G sites from 1k to 7k

■ **£1.0bn Unified communications** – Investing in fixed capabilities, for example FTTC in Italy, FTTH Portugal and fiber links in India.

■ **£0.5bn Enterprise** – IP-VPN, cloud, hosting.

■ **£1.0bn customer experience** – Expansion of store network in some countries. Investment in IT systems such as mCare.

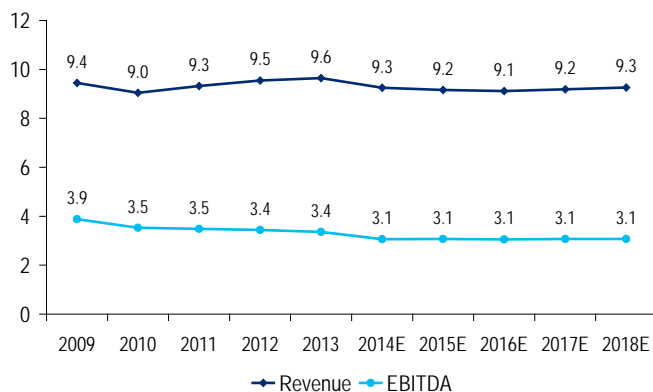
EBITDA - Vodafone guide to a £600m impact on EBITDA in FY15, neutral in FY16, before being EBITDA positive in FY17 and adding £1bn of incremental FCF in FY19.

Germany

■ 26% of our ex-US go-it-alone SOP, including KDG at 76.6% ownership

Figure 30. German Revenue & EBITDA

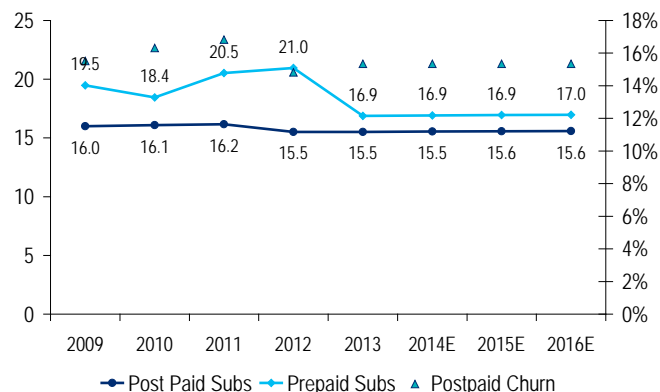
€m, year to March



Source: Company Reports and Citi Research Estimates

Figure 31. Mobile customers and churn

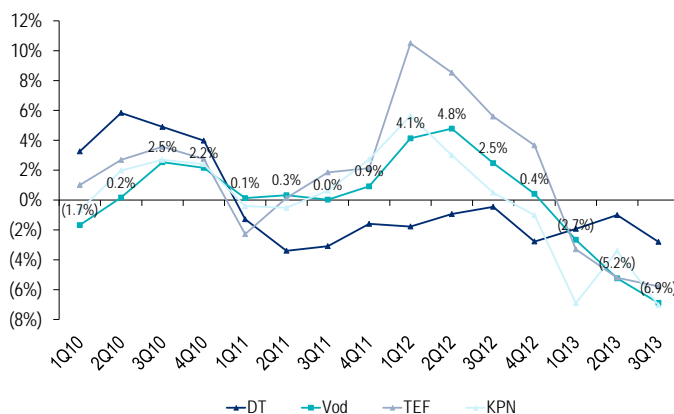
million, %, year to March



Source: Company Reports and Citi Research Estimates

Figure 32. Service Revenue Growth Rate

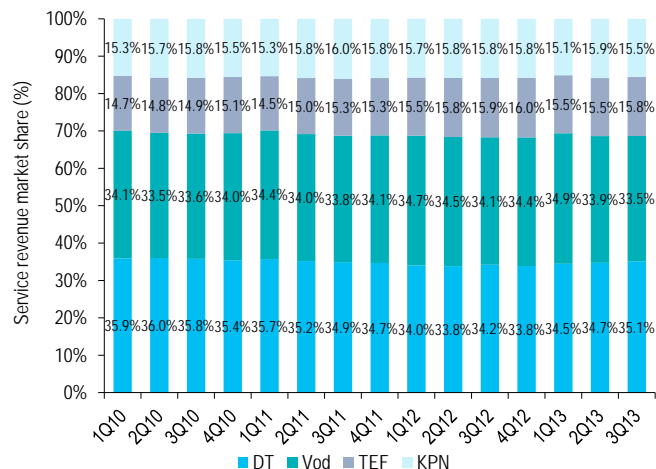
%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 33. Service Revenue Market Share

%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 34. Vodafone's spectrum holding in Germany

Band	Bandwidth	Cost (in €m)	Expiry	Downlink	Uplink	Unpaired
800MHz	2x 10 MHz	1,210	Dec-25	801.0–811.0 MHz	842.0–852.0 MHz	
900MHz	2x 5 MHz		Dec-16	935.1–937.5 MHz	890.1–892.5 MHz	
900MHz	2x 7.4 MHz		Dec-16	944.9–951.1 MHz	899.9–906.1 MHz	
1800MHz	2x 5.4 MHz	94	Dec-16	1847.7–1853.1 MHz	1752.7–1758.1 MHz	
2.1 GHz	2x 15 MHz + 5MHz	8,420	Dec-20	2110.3–2120.2 MHz	1920.3–1930.2 MHz	
2.6 GHz	2x 20 MHz	73	Dec-25	2620.0–2640.0 MHz	2500–2520 MHz	
2.6 GHz (Unpaired)	25 MHz	45				2580–2605 MHz
Total spectrum				63	63	30
of which <1GHz				22	22	0

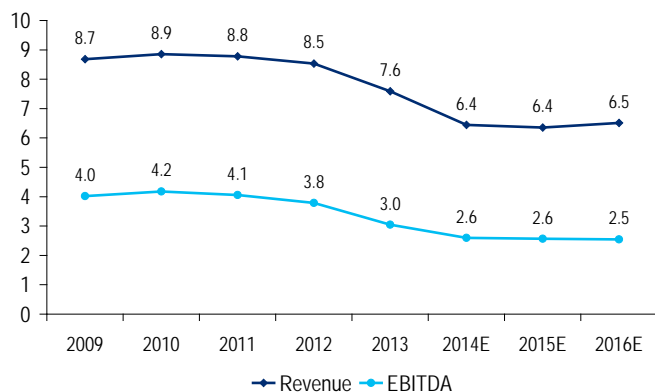
Source: National Regulatory Authority, Citi Research estimates

Italy

■ 12% of our ex-US go-it-alone SOP.

Figure 35. Italy Revenue & EBITDA

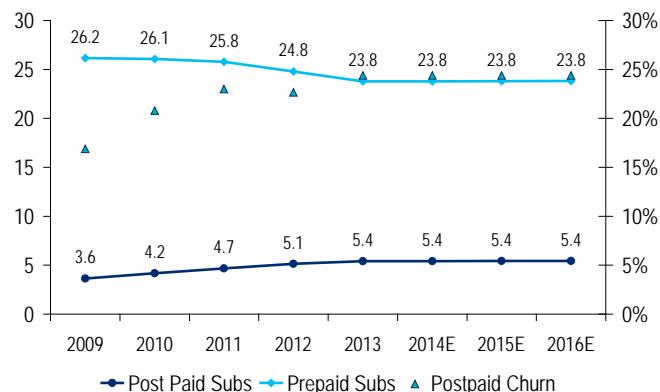
€m, year to March



Source: Company Reports and Citi Research Estimates

Figure 36. Mobile customers and churn

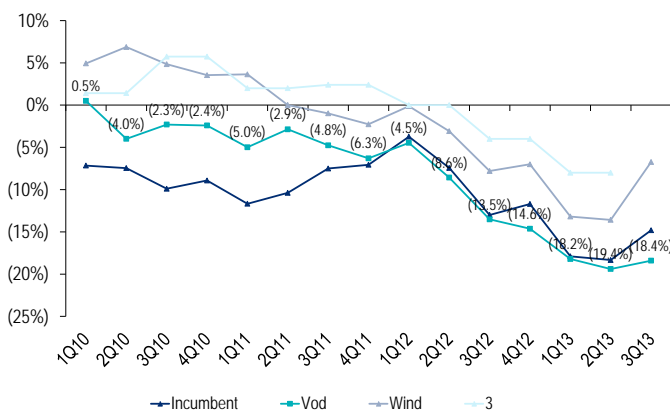
million, %, year to March



Source: Company Reports and Citi Research Estimates

Figure 37. Service Revenue Growth Rate

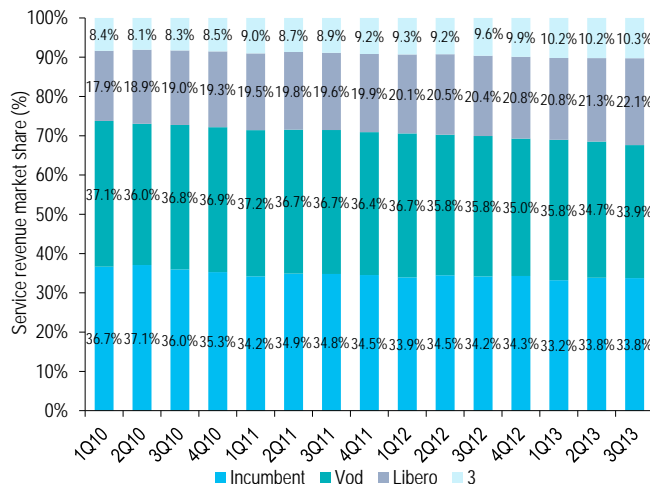
%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 38. Service Revenue Market Share

%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 39. Vodafone's spectrum holding in Italy

Band	Bandwidth	Cost (in €m)	Expiry	Downlink	Uplink	Unpaired
800MHz	2x 10 MHz	992	Dec-29	811.0–821.0 MHz	852.0–862.0 MHz	
900MHz	2x 10 MHz		Feb-15	940.4–950.0 MHz	895.4–905.0 MHz	
1800MHz	2x 5 MHz	159	Feb-15	1860.0–1865.0 MHz	1765.0–1770.0 MHz	
2.1 GHz	2x 10 MHz	2,448	Dec-21	2120–2125 MHz	1930–1935 MHz	
2.1 GHz	2x 5 MHz + 5 MHz		Dec-21			1905–1910 MHz
2.6 GHz	2x 15 MHz	108	Dec-29			
Total spectrum				55	55	5
of which <1GHz				20	20	0

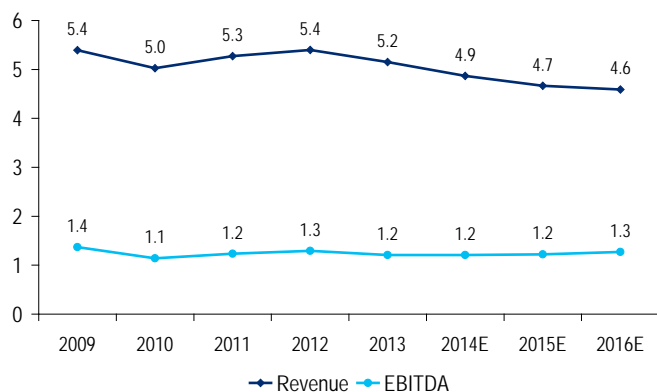
Source: National Regulatory Authority, Citi Research estimates

UK

■ 10% of our ex-US go-it-alone SOP, including C&W Worldwide

Figure 40. UK Revenue & EBITDA

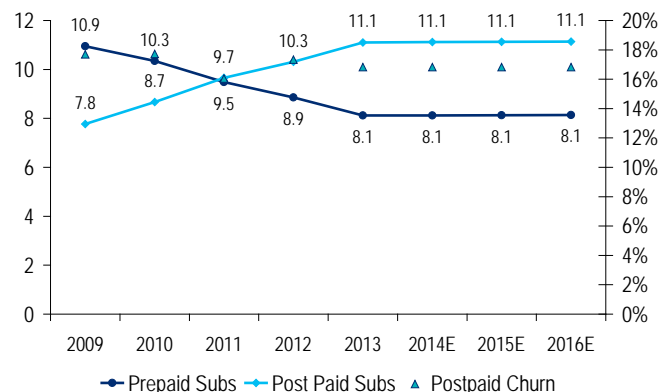
£m, year to March



Source: Company Reports and Citi Research Estimates

Figure 41. Mobile customers and churn

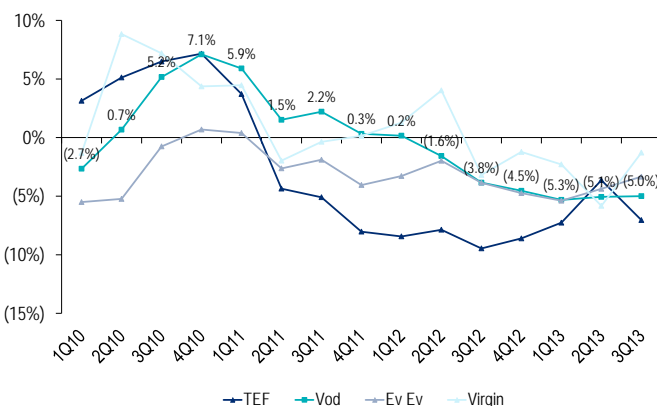
million, %, year to March



Source: Company Reports and Citi Research Estimates

Figure 42. Service Revenue Growth Rate

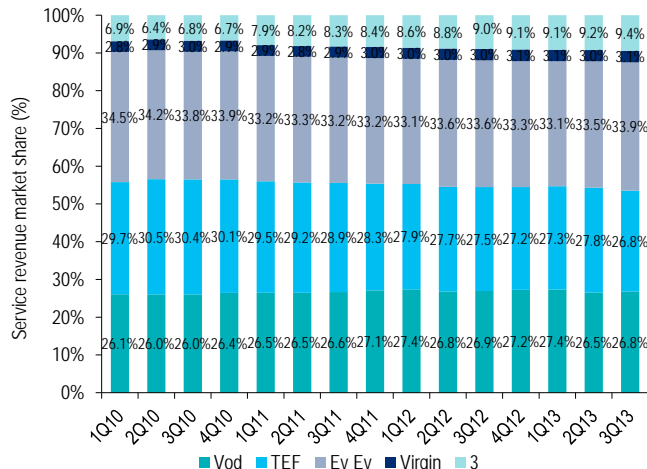
%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 43. Service Revenue Market Share

%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 44. Vodafone's spectrum holding in UK

Band	Bandwidth	Cost (in £m)	Expiry	Downlink	Uplink	Unpaired
800MHz	2x 10 MHz	5,964		801-811 MHz	842-852 MHz	
900MHz	2x 17.4 MHz			925.1-930.1 MHz	880.1-885.1 MHz	
				935.1-939.7 MHz	890.1-894.7 MHz	
				947.3-955.1 MHz	902.3-910.1 MHz	
				1810.9-1816.7 MHz	1715.9-1721.7 MHz	
1800MHz	2x 5.8 MHz	5,964		2134.9-2149.7 MHz	1944.9-1959.7 MHz	
2.1 GHz	2x 15 MHz			2620-2640 MHz	2500-2520 MHz	
2.6 GHz	2x 20 MHz					
2.6 GHz (Unpaired)	25 MHz					2570-2595 MHz
Total spectrum				68	68	25
of which <1GHz				27	27	0

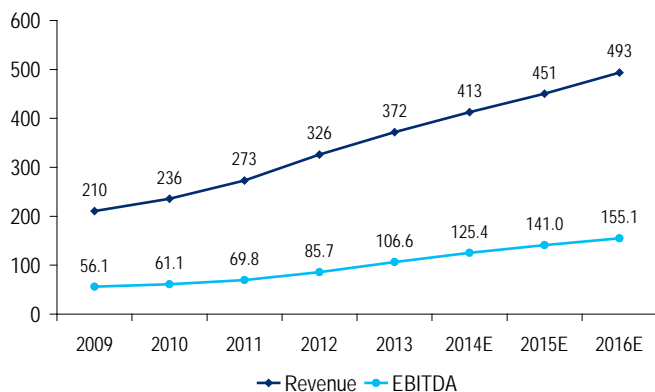
Source: National Regulatory Authority, Citi Research estimates

India

■ 13% of our ex-US go-it-alone SOP, including the stake in Indus Towers

Figure 45. India Revenue & EBITDA

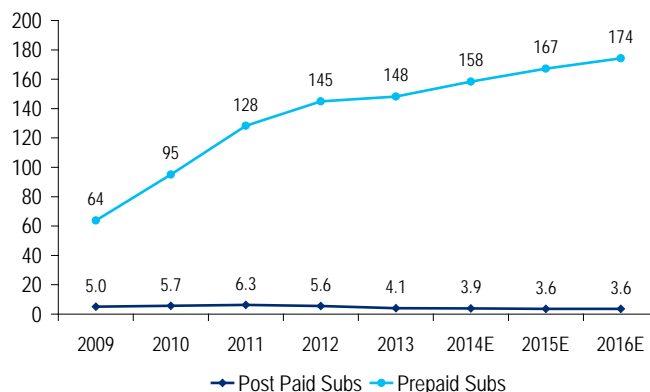
INR bn, year to March



Source: Company Reports and Citi Research Estimates

Figure 46. Mobile customers

Million, year to March



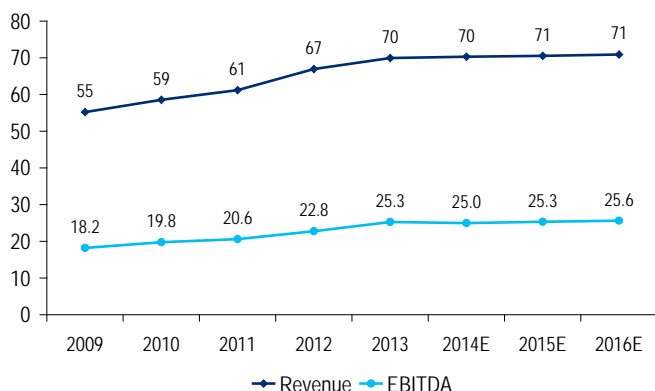
Source: Company Reports and Citi Research Estimates

Vodacom (South Africa, Tanzania, Mozambique, DRC, Lesotho)

■ 10% of our ex-US go-it-alone SOP

Figure 47. Vodacom Revenue & EBITDA

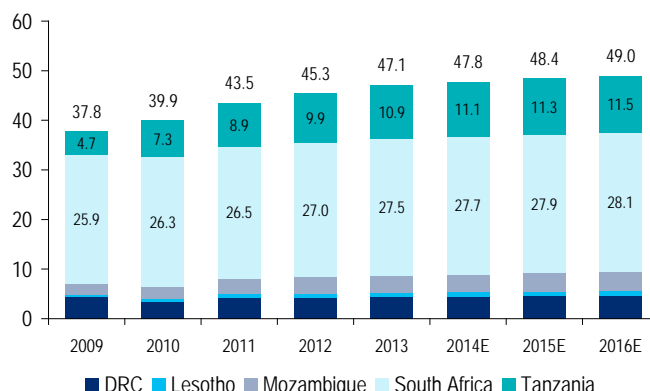
SAR bn, year to March



Source: Company Reports and Citi Research Estimates

Figure 48. Mobile customers

Million, year to March



Source: Company Reports and Citi Research Estimates

Figure 49. Vodafone's spectrum holding in South Africa

Band	Bandwidth	Cost (in ZAR mn)	Expiry	Downlink	Uplink	Unpaired
900MHz	2x 11 MHz	10				
1800MHz	2x 12 MHz	11				
2.1 GHz	2x 15 MHz	11				
2.1 GHz (unpaired)	5 MHz	2				
Total spectrum				38	38	5
of which <1GHz				11	11	0

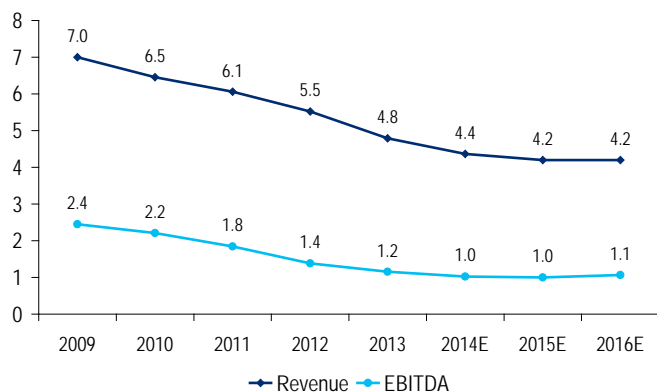
Source: National Regulatory Authority, Citi Research estimates

Spain

■ 5% of our ex-US go-it-alone SOP

Figure 50. Spain Revenue & EBITDA

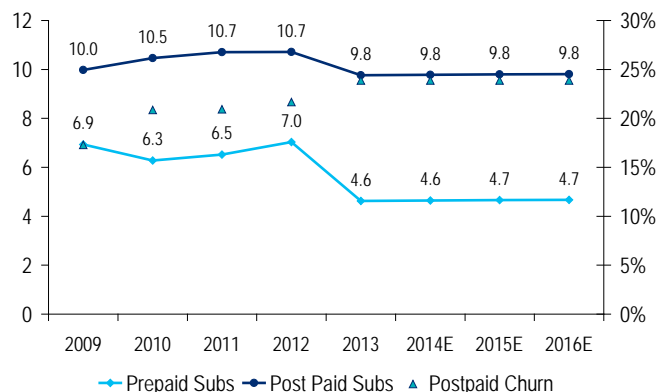
€m, year to March



Source: Company Reports and Citi Research Estimates

Figure 51. Mobile customers and churn

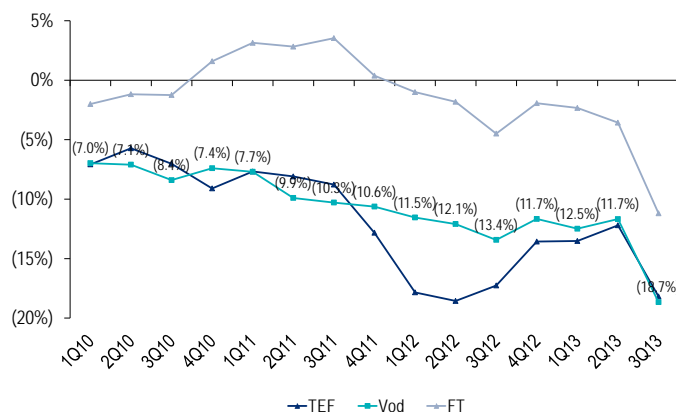
million, %, year to March



Source: Company Reports and Citi Research Estimates

Figure 52. Service Revenue Growth Rate

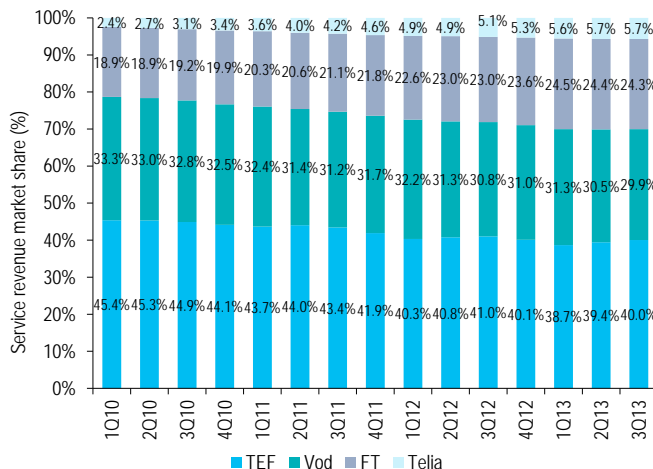
%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 53. Service Revenue Market Share

%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 54. Vodafone's spectrum holding in Spain

Band	Bandwidth	Cost	Expiry	Downlink	Uplink	Unpaired
800MHz	2x 10 MHz		Dec-30			
900MHz			Feb-20	948.9-959.9 MHz	903.9-914.9 MHz	
1800MHz			Dec-30	1825.1-1845.1 MHz	1730.1-1750.1 MHz	
2.1 GHz	2x 20 MHz		Apr-20	2140.1-2154.9 MHz	1950.1-1964.9 MHz	
2.6 GHz			Dec-30	2660-2680 MHz	2540-2560 MHz	
2.6 GHz (Unpaired)			Dec-30			2575-2595 MHz
Total spectrum				76	76	20
of which <1GHz				21	21	0

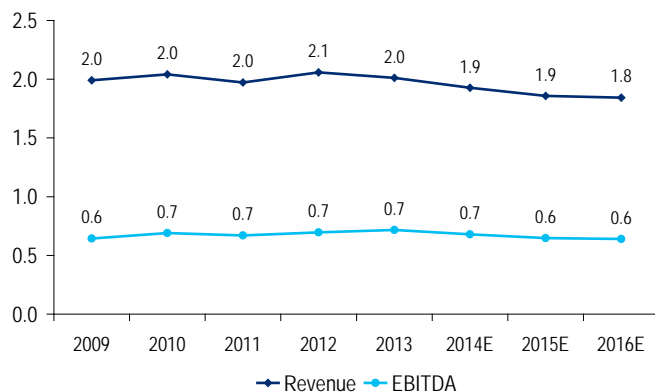
Source: National Regulatory Authority, Citi Research estimates

Netherlands

■ 3% of our ex-US go-it-alone SOP

Figure 55. Netherlands Revenue & EBITDA

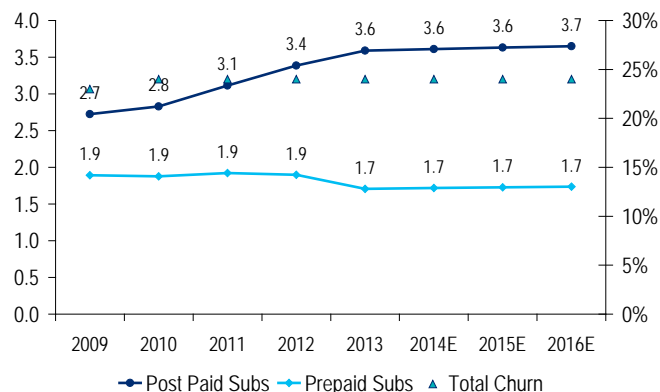
€m, year to March



Source: Company Reports and Citi Research Estimates

Figure 56. Mobile customers and churn

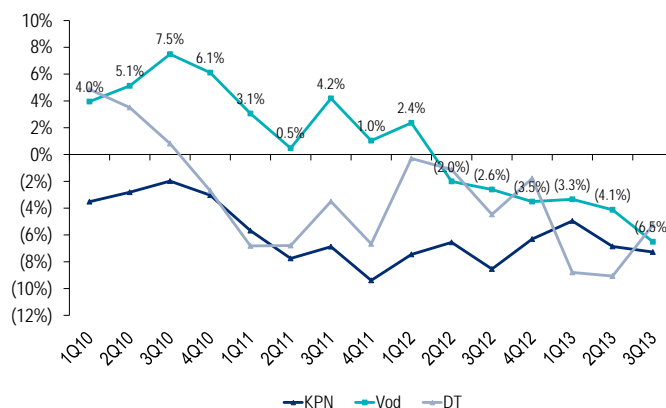
million, %, year to March



Source: Company Reports and Citi Research Estimates

Figure 57. Service Revenue Growth Rate

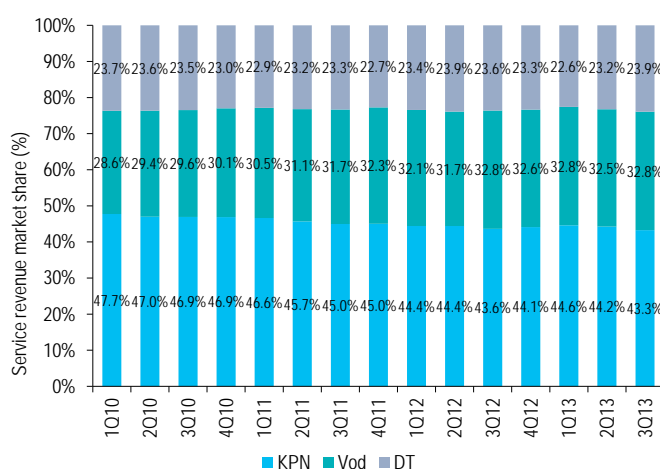
%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 58. Service Revenue Market Share

%, year to Dec



Source: Company Reports and Citi Research Estimates

Figure 59. Vodafone's spectrum holding in the Netherlands

Band	Bandwidth	Cost (in €m)	Expiry	Downlink	Uplink	Unpaired
800MHz	2x 10 MHz	1,381	Dec-29	801–811 MHz	842–852 MHz	
900MHz	2x 10 MHz		Feb-30	925–935 MHz	880–890 MHz	
1800MHz	2x 20 MHz		Feb-30	1825–1845 MHz	1730–1750 MHz	
2.1 GHz	2x 20 MHz		Dec-16	2110.3–2124.9 MHz 2154.7–2159.7 MHz	1920.3–1934.9 MHz 1964.7–1969.7 MHz	
2.1 GHz	5 MHz		Dec-16			1914.9–1920.3 MHz
2.6 GHz	2x 10 MHz		May-30	2620–2630 MHz	2500–2510 MHz	
Total spectrum				70	70	5
of which <1GHz				20	20	0

Source: National Regulatory Authority, Citi Research estimates

Telecommunications Operators
Western Europe | United Kingdom

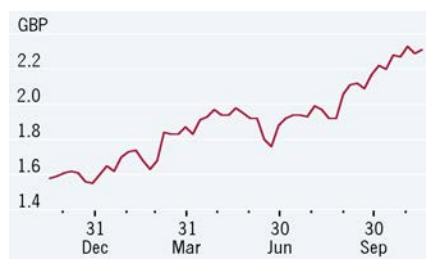
Company Focus

- Estimate Change
- Target Price Change

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Buy	1
Price (18 Nov 13)	£2.34
Target price	£2.60
from £2.35	
Expected share price return	10.9%
Expected dividend yield	4.7%
Expected total return	15.6%
Market Cap	£113,572M
	US\$183,095M

Price Performance
(RIC: VOD.L, BB: VOD LN)



Vodafone Group PLC (VOD.L)

If we had no winter, the spring would not be so pleasant*

■ **Project Spring - business reboot** — Vodafone at its 12 November investor event set out a program for returning to growth, improving efficiency and building a competitive advantage that could, in time, have a positive impact on pricing. Its Project Spring program includes a substantial investment in 'densifying' the mobile network to make it more suitable for data, expanding fixed line and enhancing its enterprise capability. Overall it will cost £7bn in additional capex up to March 2016 and around £8bn in all, including opex.

■ **Forecast revisions** — Our forecast revisions advance the purchase of KDG and the VZW/Italy deal into FY14, and add the purchase of the minority in India late in the same financial year (which could slip into FY15). Compared to our previous forecasts the India deal reduces the minority charge while the changes to KDG adds to it (76.57% ownership now vs 100%). We move our target price to 260p from 235p to reflect the potential for a bid for core Vodafone once the Verizon deal is closed. We now use a combined 'transaction' (290p) and 'go-it alone' (250p) SOP to determine our target price.

■ **Valuation and bid spec support Buy rating** — With Vodafone still trading at 5.5x EBITDA and, ex Project Spring, on strong OpFCF margins with a reasonably efficient tax structure, we regard it as supported on valuation even without a bid. Should Project Spring deliver its potential for driving top-line growth and stronger pricing we would expect it to be significantly accretive over time. Should a bid emerge we would expect it to be successful only at a material premium to current levels.

■ **Boosting mobile data competitiveness** — European mobile will receive a c.£3bn investment boost under Project Spring, with Vodafone proposing to install 71k new 4G cell sites (77k globally), 29k 3G (73k globally), 24k 2G (47k globally) and, globally, 70k small cells by Mar 16. This will take Europe's 3G cells to 101k and should make a significant impact on signal quality and depth, particularly in areas of dense usage such as urban centres and busy commuter interchanges.

■ **Stepping up in Fixed Line** — Vodafone is investing here also, targeting a FTTC (cabinet sharing) build past 6.4m households in Italy, expansion of the Portugal FTTH network to over 1.5m homes and expanding its ULL network in Spain to 82% (from 68%) population coverage.

* Anne Bradstreet, 1665

Vodafone Group PLC (GBP)

Year to 31 Mar	2012A	2013A	2014E	2015E	2016E
Sales (£M)	46,417.0	44,445.0	43,974.6	44,475.1	44,658.4
Profit Before Tax (£M)	9,307.0	3,267.0	66,240.4	3,578.0	4,102.6
Diluted EPS (p)	14.8	15.6	15.9	9.3	11.0
Diluted EPS (Old) (p)	14.8	15.6	15.7	11.8	12.5
PE (x)	15.8	15.0	14.7	25.1	21.3
EV/EBITDA (x)	4.6	5.3	10.7	10.1	9.8
DPS (p)	13.5	10.2	11.0	11.6	12.1
Net Div Yield (%)	5.8	4.4	4.7	4.9	5.2

Vodafone forecast revisions

We revise our Vodafone forecasts to bring forward the assumed close of the Verizon Wireless transaction into FY14 (1 March, 2014) and the purchase of the controlling stake in KDG to October 2013. We add the acquisition of the minority in India at the end of FY14 (in time for balance sheet closing) and incorporate the higher, faster investment under Project Spring.

Figure 60. Vodafone forecast revisions advance the VZW / Italy deal into FY14 and advance the KDG deal to Oct 2013, £m

Year to March	New			Prior			Δ			Δ%		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
N&C Europe	20,929	21,458	21,612	20,635	22,156	22,309	294	(698)	(697)	1.4%	(3.1%)	(3.1%)
S Europe	9,555	10,226	10,211	9,673	10,549	10,527	(118)	(322)	(315)	(1.2%)	(3.1%)	(3.0%)
AMAP	12,941	12,240	12,285	12,819	12,223	12,321	122	17	(36)	1.0%	0.1%	(0.3%)
Other	550	550	550	358	358	358	192	192	192	53.6%	53.6%	53.6%
Revenue	43,975	44,475	44,658	43,486	45,286	45,515	489	(811)	(856)	1.1%	(1.8%)	(1.9%)
N&C Europe	5,992	5,910	6,369	5,836	6,801	7,066	156	(891)	(697)	2.7%	(13.1%)	(9.9%)
S Europe	3,070	3,100	3,219	3,088	3,437	3,453	(19)	(337)	(234)	(0.6%)	(9.8%)	(6.8%)
AMAP	4,336	4,083	4,109	3,908	3,767	3,799	428	316	311	11.0%	8.4%	8.2%
Other	(20)	(150)	(100)	(99)	(349)	(349)	79	199	249	(79.8%)	(57.0%)	(71.3%)
EBITDA	13,378	12,943	13,597	12,734	13,657	13,968	644	(713)	(371)	5.1%	(5.2%)	(2.7%)
% Margin	30.4%	29.1%	30.4%	29.3%	30.2%	30.7%	1.1%	(1.1%)	(0.2%)			
D&A	(8,064)	(8,407)	(8,661)	(7,898)	(8,497)	(8,612)	(166)	91	(49)	2.1%	(1.1%)	0.6%
Subsidiary & JV EBIT	5,315	4,537	4,936	4,836	5,159	5,357	479	(622)	(421)	9.9%	(12.1%)	(7.9%)
% Margin	12.1%	10.2%	11.1%	11.1%	11.4%	11.8%	1.0%	(1.2%)	(0.7%)			
Share associate net income	3,210	55	57	7,206	56	58	(3,996)	(0)	(0)	(55.5%)	(0.5%)	(0.3%)
Operating profit	8,525	4,592	4,994	12,042	5,215	5,415	(3,517)	(623)	(421)	(29.2%)	(11.9%)	(7.8%)
Other/Exceptionals	44,588	(184)	(92)	0	(86)	(86)	44,588	(98)	(6)	NM	114.6%	7.2%
Group net interest payable	(1,414)	(830)	(799)	(1,467)	(745)	(724)	53	(85)	(75)	(3.6%)	11.4%	10.3%
PBT	51,698	3,578	4,103	10,575	4,384	4,604	41,124	(806)	(502)	388.9%	(18.4%)	(10.9%)
Tax Payable, pre exceptionals	(1,798)	(964)	(940)	(2,589)	(1,250)	(1,298)	790	286	358	(30.5%)	(22.9%)	(27.6%)
Exceptional tax charges	14,473	0	0	0	0	0	14,473	0	0	NM	NM	NM
Tax rate (inc assocs)	26.0%	26.2%	22.9%	25.4%	28.4%	28.1%	0.6%	(2.3%)	(5.2%)			
Minority interests, pre excep	(359)	(372)	(388)	(322)	(339)	(348)	(37)	(33)	(40)	11.5%	9.9%	11.4%
Exceptional Minorities	0	0	0	0	0	0	0	0	0	NM	NM	NM
Discontinued items	2,677	0	0	0	0	0	2,677	0	0	NM	NM	NM
Net Income	66,691	2,242	2,775	7,664	2,795	2,959	59,027	(553)	(184)	770.1%	(19.8%)	(6.2%)
Adj net income, continuing	7,631	2,426	2,867	7,664	2,881	3,044	(33)	(455)	(177)	(0.4%)	(15.8%)	(5.8%)
Reported adjusted EPS (dil, p)	15.90	9.34	11.01	15.66	11.83	12.45	0.24	(2.49)	(1.44)	1.5%	(21.0%)	(11.6%)
Adj EPS (p), excl gw amort	16.86	11.02	12.49	16.59	13.48	13.90	0.26	(2.46)	(1.41)	1.6%	(18.3%)	(10.1%)
Dividend per share (p)	11.00	11.55	12.13	11.00	11.55	12.13	0.00	0.00	0.00	0.0%	0.0%	0.0%
Basic share count, y/e	25,700	25,764	25,829	48,484	24,169	24,230	(22,784)	1,595	1,599	(47.0%)	6.6%	6.6%
Bsaic share count, average	47,748	25,732	25,797	48,701	24,109	24,200	(953)	1,624	1,597	(2.0%)	6.7%	6.6%
Change in working cap/other	10	(154)	(62)	10	(56)	(56)	0	(98)	(6)	0.0%	176.3%	11.0%
Tax paid	(2,537)	(1,223)	(996)	(2,631)	(1,506)	(1,222)	94	283	226	(3.6%)	(18.8%)	(18.5%)
Net interest paid	(1,407)	(826)	(796)	(1,460)	(741)	(721)	53	(85)	(75)	(3.6%)	11.5%	10.4%
Dividends received	4,428	53	55	4,756	53	55	(328)	(0)	(0)	(6.9%)	(0.2%)	(0.1%)
Dividends paid to minorities	(360)	(302)	(278)	(361)	(354)	(342)	1	52	64	(0.2%)	(14.7%)	(18.8%)
Capex excl spectrum	(6,700)	(9,567)	(9,518)	(6,091)	(8,243)	(8,107)	(609)	(1,324)	(1,410)	10.0%	16.1%	17.4%
FCF pre spectrum	6,812	925	2,003	6,957	2,811	3,576	(145)	(1,885)	(1,573)	(2.1%)	(67.1%)	(44.0%)
excl VZW discretionary div	4,745	925	2,003	4,913	2,811	3,576	(168)	(1,885)	(1,573)	(3.4%)	(67.1%)	(44.0%)
Capex on spectrum	(448)	(1,199)	0	(440)	(1,237)	0	(8)	39	0	1.8%	(3.1%)	NM
Stock repurchases	(53,417)	0	0	(1,058)	(52,537)	0	(52,359)	52,537	0	4948.9%	NM	NM
Net (debt)/cash exc put	(9,438)	(12,569)	(13,608)	(25,389)	(11,453)	(10,730)	15,951	(1,117)	(2,878)	(62.8%)	9.8%	26.8%

Source: Citi Research Estimates

Telecommunications Operators
North America | United States

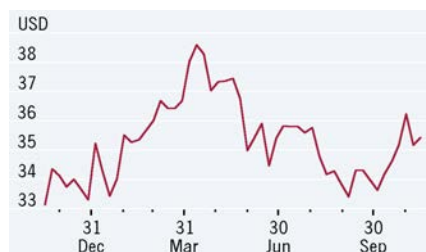
Company Focus

AT&T Inc (T) Pay AT&Tention

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Neutral	2
Price (18 Nov 13)	US\$35.53
Target price	US\$38.00
Expected share price return	7.0%
Expected dividend yield	5.2%
Expected total return	12.1%
Market Cap	US\$187,172M

Price Performance
(RIC: T.N, BB: T US)



■ **Circling the Globe** — We summarize AT&T's potential interest in investing in European wireless as a triple-bottom thesis: 1) the economic cycle could be at a trough; 2) the regulatory cycle for telecom may be at a trough (regulatory headwinds could ease in the future); and 3) the product cycle is at a trough with the upcoming deployment of LTE services. After all, AT&T's logo is still a globe. We remain cautious on any future benefits to AT&T in such a scenario, given that the European telecom market is still managed on a country-by-country basis, investment may need to rise to boost future revenue growth, and cash generated from overseas assets may face some hurdles to be efficiently repatriated for US investors.

■ **Focus Remains on 'Next' Move** — AT&T is in the middle of a capital investment cycle, which we believe could limit consolidated margin expansion over the next couple of years, but improve the company's competitive positioning over the long-run for both fixed & mobile broadband. We maintain our Neutral rating on AT&T, as we believe: 1) slow revenue growth prospects are likely to weigh on EPS growth for 2014 (and we remain below the consensus for '14 EPS); 2) revenue contributions from new initiatives still need time before they become meaningful; and 3) further multiple expansion is likely to be challenging without better top-line growth.

■ **Still Waiting on Wireless Margin Expansion** — AT&T's year-to-date wireless OIBDA margin is down almost 70 bps yoy to 42.6%, and management's target for a FY13 margin of ~40% relies on meaningful yoy improvement in its 4Q margin during the holiday selling season. We expect AT&T's handset exchange initiative, "Next", should help the company meet its near-term margin aspirations, but have tempered our expectations for outer-year margin expansion with revenue growth slowing and the longer-term competitive risks within the sector.

■ **More of the Same From Wireline** — Wireline revenue and OIBDA trends have experienced growing influence of Strategic Services and U-Verse helping to offset the erosion of higher margin legacy services. Project VIP investments have accelerated, which we believe is a positive to support future consumer revenue growth on improving broadband capabilities.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.59A	0.66A	0.62A	0.44A	2.32A	2.31A
2013E	0.64A	0.67A	0.66A	0.51E	2.48E	2.48E
Previous	0.64A	0.67A	0.66A	0.51E	2.48E	na
2014E	0.67E	0.70E	0.70E	0.56E	2.63E	2.68E
Previous	0.67E	0.70E	0.70E	0.56E	2.63E	na
2015E	na	na	na	na	2.75E	2.86E
Previous	na	na	na	na	2.75E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

AT&T Summary Model

Figure 61. AT&T Inc. — Key Metrics

(\$ in millions, except per-share and subscriber data)

	1Q/13	2Q/13	3Q/13	4Q/13E	1Q/14E	2Q/14E	3Q/14E	4Q/14E	2010	2011	2012	2013E	2014E	2015E
Total Revenue	31,356	32,075	32,158	33,043	32,078	32,613	32,610	33,468	124,280	126,723	127,461	128,632	130,769	132,902
% Growth	(1.5%)	1.6%	2.2%	1.3%	2.3%	1.7%	1.4%	1.3%	1.4%	2.0%	0.6%	0.9%	1.7%	1.6%
OIBDA	10,469	10,684	10,574	9,509	10,859	11,017	11,035	9,843	42,327	40,966	41,310	41,236	42,754	43,892
Margin	33.4%	33.3%	32.9%	28.8%	33.9%	33.8%	33.8%	29.4%	34.1%	32.3%	32.4%	32.1%	32.7%	33.0%
% Growth	(1.8%)	(5.6%)	0.2%	8.3%	3.7%	3.1%	4.4%	3.5%	2.4%	(3.2%)	0.8%	(0.2%)	3.7%	2.7%
Operating Income	5,940	6,113	5,959	4,817	6,220	6,407	6,454	5,290	23,036	22,589	23,167	22,829	24,371	25,338
Margin	18.9%	19.1%	18.5%	14.6%	19.4%	19.6%	19.8%	15.8%	18.5%	17.8%	18.2%	17.7%	18.6%	19.1%
% Growth	(2.6%)	(10.3%)	(1.3%)	14.4%	4.7%	4.8%	8.3%	9.8%	5.7%	(1.9%)	2.6%	(1.5%)	6.8%	4.0%
Net Income Avail. to C/S	3,700	3,822	3,814	2,710	3,520	3,643	3,675	2,906	19,864	3,944	7,264	14,046	13,744	14,245
% of Revenues	11.8%	11.9%	11.9%	8.2%	11.0%	11.2%	11.3%	8.7%	16.0%	3.1%	5.7%	10.9%	10.5%	10.7%
% Growth	3.2%	(2.1%)	4.9%	NM	(4.9%)	(4.7%)	(3.6%)	7.2%	63.7%	(80.1%)	84.2%	93.4%	(2.1%)	3.6%
Effective Tax Rate (%)	29.6%	33.4%	29.5%	32.0%	34.0%	34.0%	34.0%	34.0%	34.3%	39.1%	28.5%	31.1%	34.0%	34.0%
EPS - Normalized	\$0.64	\$0.67	\$0.66	\$0.51	\$0.67	\$0.70	\$0.70	\$0.56	\$2.28	\$2.20	\$2.32	\$2.48	\$2.63	\$2.75
% Growth	7.7%	0.6%	6.1%	16.1%	4.7%	4.1%	7.3%	8.9%	10.1%	(3.5%)	5.3%	6.8%	6.0%	4.9%
FCF (CFFO-Capex) - Consolidated	3,881	4,025	3,195	3,543	3,387	3,508	3,523	2,725	14,691	14,376	19,448	14,644	13,143	12,115
FCF (CFFO-Capex) - Consolidated	\$0.70	\$0.75	\$0.60	\$0.67	\$0.64	\$0.67	\$0.67	\$0.52	\$2.47	\$2.42	\$3.34	\$2.72	\$2.51	\$2.34
% Growth	20.1%	(14.4%)	(46.9%)	(12.0%)	(8.3%)	(10.2%)	12.5%	(21.9%)	(14.4%)	(2.4%)	38.3%	(18.6%)	(7.6%)	(6.7%)
Dividends Per Share	\$0.45	\$0.45	\$0.45	\$0.45	\$0.46	\$0.46	\$0.46	\$0.46	\$1.68	\$1.72	\$1.76	\$1.80	\$1.84	\$1.86
% Growth	2.3%	2.3%	2.3%	2.3%	2.2%	2.2%	2.2%	2.2%	2.4%	2.4%	2.3%	2.3%	2.2%	1.1%
Average Shares (MM)	5,530	5,397	5,331	5,293	5,261	5,239	5,225	5,213	5,938	5,952	5,822	5,388	5,235	5,174
Shares Repurchased	168	89	55	45	35	25	20	20	0	0	371	357	100	100
Amount Repurchased (\$ millions)	(5,911)	(3,306)	(1,917)	(1,575)	(1,225)	(875)	(700)	(700)	0	0	(12,752)	(12,709)	(3,500)	(3,500)
Capital Expenditures	4,318	5,487	5,973	5,700	5,050	5,050	5,050	5,050	20,302	20,272	19,728	21,478	20,200	20,000
% of Total Revenue	13.8%	17.1%	18.6%	17.3%	15.7%	15.5%	15.5%	15.1%	16.3%	16.0%	15.5%	16.7%	15.4%	15.0%
Net PP&E	109,702	110,734	112,424	113,432	113,844	114,284	114,752	115,249	103,963	107,087	109,767	113,432	115,249	116,695
Total Assets	270,994	272,093	274,599	272,034	272,033	272,791	273,359	274,306	269,254	270,344	272,315	272,034	274,306	276,361
Net Debt - Consolidated	70,257	70,625	74,852	78,750	78,994	78,760	78,606	78,968	64,730	61,568	64,976	78,750	78,968	79,883
Wireline Operating Forecasts														
	1Q/13	2Q/13	3Q/13	4Q/13E	1Q/14E	2Q/14E	3Q/14E	4Q/14E	2010	2011	2012	2013E	2014E	2015E
Reported Access Lines - Ending	31,163	30,228	29,296	28,442	27,770	27,152	26,519	25,967	43,563	39,010	32,184	28,442	25,967	24,317
% Growth	(17.7%)	(17.9%)	(18.2%)	(11.6%)	(10.9%)	(10.2%)	(9.5%)	(8.7%)	(10.2%)	(10.5%)	(17.5%)	(11.6%)	(8.7%)	(6.4%)
Net Adds - Internal	(1021)	(935)	(932)	(854)	(672)	(618)	(633)	(552)	(4925)	(4553)	(6826)	(3742)	(2475)	(1650)
HSI Subscribers - Total	16,514	16,453	16,427	16,425	16,549	16,488	16,462	16,460	16,310	16,427	16,390	16,425	16,460	16,495
% Growth	(0.1%)	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	3.3%	0.7%	(0.2%)	0.2%	0.2%	0.2%
Net Adds - Internal	124	(61)	(26)	(2)	124	(61)	(26)	(2)	521	117	(37)	35	35	35
U-Verse Data Subscribers - Total	8,415	9,056	9,711	10,311	10,761	11,211	11,661	12,111	3,463	5,191	7,684	10,311	12,111	13,311
% Growth	42.4%	40.1%	37.3%	34.2%	27.9%	23.8%	20.1%	17.5%	NM	49.9%	48.0%	34.2%	17.5%	9.9%
Net Adds - Internal	731	641	655	600	450	450	450	450	0	1728	2493	2627	1800	1200
U-Verse Video Subscribers - Total	4,768	5,001	5,266	5,466	5,616	5,766	5,916	6,066	2,985	3,791	4,536	5,466	6,066	6,566
% Growth	19.5%	20.6%	21.2%	20.5%	17.8%	15.3%	12.3%	11.0%	44.6%	27.0%	19.7%	20.5%	11.0%	8.2%
Net Adds - Internal	232	233	265	200	150	150	150	150	921	806	745	930	600	500
Consumer Mass Market	5,480	5,579	5,567	5,627	5,595	5,693	5,680	5,735	21,257	21,329	21,736	22,253	22,703	22,994
AT&T Business Solutions	8,903	8,921	8,845	8,903	8,757	8,785	8,749	8,849	38,381	37,225	36,563	35,572	35,141	35,294
National Mass Markets Revenue	178	162	154	148	142	130	123	118	1,335	1,018	809	642	514	411
Other Revenue	94	111	104	116	92	109	102	113	638	577	465	425	416	408
Total Revenue	14,655	14,773	14,670	14,793	14,587	14,717	14,654	14,816	61,611	60,149	59,573	58,891	58,774	59,106
% Growth	(1.8%)	(0.9%)	(1.0%)	(0.9%)	(0.5%)	(0.4%)	(0.1%)	0.2%	(3.0%)	(2.4%)	(1.0%)	(1.1%)	(0.2%)	0.6%
OIBDA	4,320	4,356	4,285	4,334	4,230	4,268	4,250	4,297	20,363	18,789	18,366	17,295	17,044	16,934
OIBDA Margin	29.5%	29.5%	29.2%	29.3%	29.0%	29.0%	29.0%	29.0%	33.1%	31.2%	30.8%	29.4%	29.0%	28.7%
Cash Margin	30.2%	30.4%	30.2%	30.3%	29.8%	29.9%	30.0%	30.0%	33.9%	32.2%	31.7%	30.3%	29.9%	29.6%
% Growth	-4.6%	-7.5%	-6.1%	-5.1%	-2.1%	-2.0%	-0.8%	-0.9%	-3.8%	-7.7%	-2.3%	-5.8%	-1.5%	-0.6%
Operating Income	1,632	1,634	1,549	1,583	1,544	1,622	1,644	1,731	7,991	7,174	7,243	6,398	6,540	6,834
Operating Margin	11.1%	11.1%	10.6%	10.7%	10.6%	11.0%	11.2%	11.7%	13.0%	11.9%	12.2%	10.9%	11.1%	11.6%
% Growth	(5.0%)	(15.8%)	(13.5%)	(11.7%)	(5.4%)	(0.7%)	6.1%	9.3%	(5.1%)	(10.2%)	1.0%	(11.7%)	2.2%	4.5%
Wireline Capital Expenditures	2,022	2,454	2,913	2,200	2,300	2,300	2,300	2,300	11,031	9,985	8,908	9,589	9,200	9,000

Source: Company Reports and Citi Research Estimates

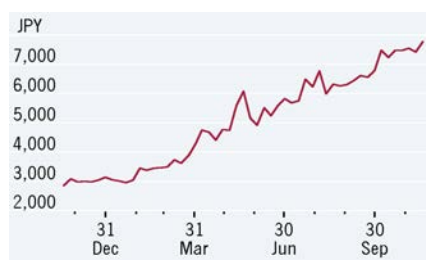
Telecommunications Operators
Japan

Company Focus

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Neutral/High Risk	2H
Price (18 Nov 13)	¥7,770
Target price	¥7,500
Expected share price return	-3.5%
Expected dividend yield	0.5%
Expected total return	-3.0%
Market Cap	¥9,228,181M US\$92,111M

Price Performance
(RIC: 9984.T, BB: 9984 JP)



SoftBank (9984)

Execution risks belie high expectations

- **No more first-mover advantage in domestic mobile** — The market has high hopes for an earnings surge on smartphone subscriber growth. However, while SoftBank was once the sole Japanese distributor of the iPhone, all three major mobile carriers now offer it, making handset differentiation harder. We see the focus of competition moving to networks, where we feel SoftBank's bundled services are less appealing than those of arch-rival KDDI, as SoftBank's fixed-line service area is limited and its FTTH services use other firms' lines. We therefore think SoftBank Mobile will now see only moderate growth in net adds and that domestic profit growth will slow to single digits.
- **Cautious on North America growth** — Our Sprint analyst Michael Rollins forecasts that the North America business will turn profitable at the operating line in FY3/15, but at the same time the acquisition of Clearwire and increased spending in North America is likely to mean net US interest-bearing debt swells by c\$11bn to c\$29bn by end-2014E (1.5x 2014E OIBDA). He does not think the market has fully factored this in and rates Sprint Neutral/High Risk.
- **Balance sheet stretched taut** — We project that SoftBank's interest-bearing debt will exceed ¥8trn (c\$80bn) at end-FY3/14, making the company more leveraged than any other Japan or US telecom firm, with a net debt/equity ratio of 2.5x. While we see total capex peaking in FY3/15, we expect SoftBank to continue to pursue M&A deals in search of ever greater scale.
- **Further M&A possibility to become #1 in the world** — Given its long-term goal of being No. 1 globally in operating profit, we believe SoftBank could well look to enter the European market. As we think that Softbank is likely to prioritize network capabilities, Vodafone's ample spectrum in the 2.5-2.6GHz band is probably attractive to SoftBank given its network strategy of developing high-speed internet services in the 2.5GHz band using TD-LTE. However, differences in the regulatory environment compared with Japan may prove a barrier to entry into the European market, so SoftBank may elect to prioritize the development of the Internet business over the telecoms business.
- **Reference** — See our Oct 18 report, [SoftBank \(9984\) - Downgrading to Neutral: Execution risks belie high expectations](#), for more details about Softbank investment strategy.

Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/13A	3,202,536	na	799,399	na	25.0	715,504	na	372,481	na	327	23.8
3/14CE	na	na	1,000,000	25.1	na	na	na	na	na	na	na
3/14E	6,572,966	105.2	1,088,222	36.1	16.6	889,733	24.4	480,903	29.1	418	18.6
3/15E	7,815,766	18.9	1,162,625	6.8	14.9	1,070,436	20.3	606,751	26.2	528	14.7
3/16E	8,003,844	2.4	1,362,314	17.2	17.0	1,365,004	27.5	825,684	36.1	725	10.7

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

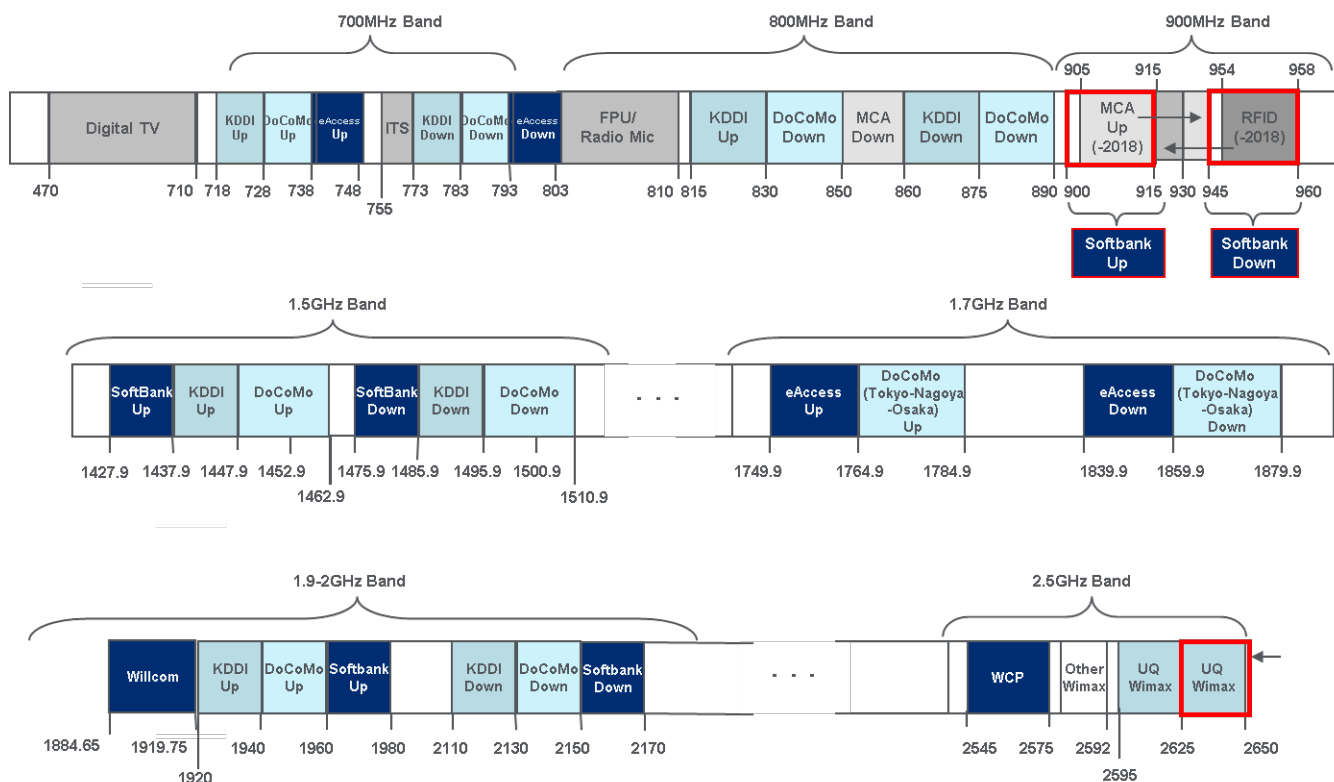
SoftBank Forecast Summary

Figure 62. SoftBank: Consolidated earnings model (IFRS)

(¥mn)	FY3/13	FY3/14E	FY3/15E	FY3/16E	FY3/17E	FY3/18E
Revenue	3,202,536	6,572,966	7,815,766	8,003,844	8,110,219	8,185,172
(YoY, %)	NA	105.2	18.9	2.4	1.3	0.9
Mobile	2,345,630	5,673,644	6,902,761	7,085,594	7,193,019	7,265,152
SoftBank Mobile	2,315,085	2,435,038	2,551,021	2,635,504	2,638,509	2,614,012
Sprint Corp	0	2,680,820	3,684,670	3,756,000	3,849,200	3,944,300
eAccess (eMobile)	36,729	186,199	207,540	225,290	238,340	245,430
Willcom and WCP	0	135,580	194,260	201,730	198,880	192,290
GungHo	0	216,607	245,270	247,070	248,090	249,120
Other mobile	-6,184	19,400	20,000	20,000	20,000	20,000
Fixed line	531,028	537,287	515,615	493,550	471,090	450,180
eAccess	7,902	27,013	19,680	13,740	9,520	6,600
SoftBank Telecom and others	523,126	510,274	495,935	479,810	461,570	443,580
Internet	356,609	410,208	441,850	464,130	479,210	497,720
Other	117,065	124,835	131,070	135,000	139,050	141,140
Adjustment	-147,796	-173,008	-175,530	-174,430	-172,150	-169,020
EBITDA	1,152,740	1,785,473	2,242,135	2,463,074	2,570,049	2,712,822
(YoY, %)	NA	54.9	25.6	9.9	4.3	5.6
(Margin, %)	36.0	27.2	28.7	30.8	31.7	33.1
Mobile	797,343	1,412,811	1,862,025	2,073,174	2,178,329	2,316,652
SoftBank Mobile	723,946	766,588	809,101	856,264	900,389	932,512
Sprint Corp	0	380,710	751,920	907,400	964,600	1,071,000
eAccess (eMobile)	8,792	51,761	59,940	62,750	64,000	64,100
Willcom and WCP	0	28,170	39,500	39,440	38,320	36,130
GungHo	0	-1,510	2,760	7,550	10,610	11,880
Other mobile	64,605	187,092	198,804	199,770	200,410	201,030
Fixed line	168,061	173,853	166,210	161,450	155,220	149,570
eAccess	2,610	10,856	7,850	5,110	3,110	1,740
SoftBank Telecom and others	165,451	162,997	158,360	156,340	152,110	147,830
Internet	193,290	216,500	234,450	249,070	257,020	267,070
Other	-5,954	-17,691	-20,550	-20,620	-20,520	-20,470
Segment profit	797,620	834,302	1,162,625	1,362,314	1,506,359	1,620,812
(YoY, %)	NA	4.6	39.4	17.2	10.6	7.6
(Margin, %)	24.9	12.7	14.9	17.0	18.6	19.8
Mobile	517,120	550,074	871,995	1,062,024	1,203,729	1,313,302
SoftBank Mobile	459,651	468,588	506,101	547,264	586,389	613,512
Sprint Corp	0	60,340	343,620	456,700	502,700	558,200
eAccess (eMobile)	-405	16,545	22,430	25,820	27,130	27,290
Willcom and WCP	0	3,560	11,460	17,390	20,330	20,710
GungHo	0	133,067	148,654	149,370	150,010	150,630
Amortization cost from intangible assets	0	-181,440	-208,270	-182,520	-130,830	-105,040
Other mobile	57,874	49,414	48,000	48,000	48,000	48,000
Fixed line	114,232	107,642	99,930	96,110	91,740	87,770
eAccess	2,098	7,255	3,950	1,790	290	-660
SoftBank Telecom and others	112,134	100,387	95,980	94,320	91,450	88,430
Internet	180,720	202,179	219,250	232,800	239,410	248,210
Other	6,400	4,041	3,450	3,380	3,480	3,530
Adjustment	-20,852	-29,634	-32,000	-32,000	-32,000	-32,000
Other income/expenses, additional line items	1,779	253,920	0	0	0	0
Operating income	799,399	1,088,222	1,162,625	1,362,314	1,506,359	1,620,812
(YoY, %)	NA	36.1	6.8	17.2	10.6	7.6
Financial income/expense	-57,758	-181,150	-255,000	-199,760	-179,630	-154,530
Equity method income	-26,137	-17,340	162,810	202,450	232,170	254,930
Income before income tax	715,504	889,733	1,070,436	1,365,004	1,558,899	1,721,212
Income tax expense	277,667	328,230	323,490	363,540	541,490	598,540
Net income	437,837	561,503	746,946	1,001,464	1,017,409	1,122,672
(YoY, %)	NA	28.2	33.0	34.1	1.6	10.3
Attributed to owners of the company	372,481	480,903	606,751	825,684	854,289	947,672
Attributed to non-controlling interests	65,356	80,599	140,195	175,780	163,120	175,000
EPS(¥)	327	418	528	725	750	832

Source: Company data, Citi Research.

Figure 63. Japan cellular spectrum allocations – Softbank (through WCP) has 30MHz of unpaired spectrum suitable for TD-LTE at 2.5GHz



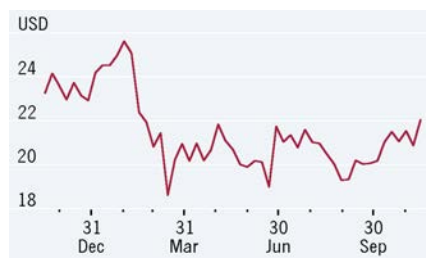
Source: Company data, Citi Research

Company Focus

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Neutral	2
Price (18 Nov 13)	US\$21.97
Target price	US\$23.00
Expected share price return	4.7%
Expected dividend yield	0.1%
Expected total return	4.8%
Market Cap	US\$78,118M

Price Performance
(RIC: AMX.N, BB: AMX US)



América Móvil (AMX)

Geographic diversification a defensive move for AMX?

- **AMX stepping away from LatAm** – In May 2012, América Móvil started to venture outside of its home market with two minority investments in Europe; AMX now owns c.30% of Dutch telco KPN and c.23% of Telekom Austria. These were the first investments for AMX outside of its home continent and we think are only the first steps of AMX's long-term growth ambitions globally.
- **Growth slows in its home market** – We see AMX's diversification efforts as an escape from the softening dynamics of its home markets. On average, mobile penetration has already exceeded 100% of the population in Latin America, and with intense competition and falling mobile termination rates in some of AMX's most important markets, we think top-line growth in real terms will be in the low-single digits going forward.
- **Competition tougher in Mexico** – In 2011, media conglomerate Televisa bought a 50% stake in Iusacell – a small Mexican mobile operator that was bankrupt at the time, and injected much-needed capital to improve / enhance network and helped re-position the company's offers and marketing approach. Iusacell has a market share of around 10% and is controlled jointly with TV Azteca. Also, recent press reports suggest that Telefónica might be seeking a partner in Mexico to strengthen its operations there – if confirmed, this would bring a new challenge for AMX in its home market. TEF has c.20% of Mexico's mobile subs.
- **Potentially unfriendly regulation** – With the Mexico government's desire to stimulate competition, we think that the telecom rules that are due to be published by new regulatory body IFETEL in early 2014, will only intensify the pressures on AMX's biggest market. Today, Mexico is 36% of AMX's revenues, but 47% of EBITDA. In the end, we think that new regulation and stronger competitors will mean downside risks to AMX's 44% EBITDA margins in Mexico. Margins there have now dropped in every quarter since 3Q13.
- **AMX in India?** – With AMX's attempt to buy the shares that it did not already own in KPN having failed in mid-October, and presumed genuine ambitions to diversify geographically, we think it could be interested in buying Vodafone's assets in India, if they were to come up for sale, although it has given no indications it plans to. If AT&T (which owns c.10% of AMX) were to proceed with an acquisition of Vodafone, we think AMX might partner by buying some of Vodafone's developing market assets to expand its footprint. This could enable AT&T to be able keep the remaining assets, concentrated on the developed nations, at a reduced overall financial cost.

Estimates	2012A	2013E	2014E	2015E	Q113A	Q213A	Q313A	Q413E
Sales (P\$M)	775,069	774,682	765,191	779,701	192,959	194,800	194,221	192,702
EBITDA adj (P\$M)	260,896	253,902	254,145	262,993	63,818	65,041	63,318	61,725
EBITDA margin adj (%)	33.7	32.8	33.2	33.7	33.1	33.4	32.6	32.0
Net income (P\$M)	91,440	76,469	79,077	84,460	26,871	14,193	16,383	19,022
EPS (P\$)	23.96	20.92	22.05	23.55	7.12	3.87	4.57	5.30
Valuation					Ratios		2012A	2013E
EV/EBITDA adj	5.0	5.3	5.3	5.1	ROE adj (%)		30.1	28.0
PE	11.9	13.6	12.9	12.1	ROIC adj (%)		17.9	17.6
FCF (%)	-0.7	1.2	6.6	8.2	Debt to Capital (%)		57.2	68.6

Source: Company Reports and dataCentral, Citi Research.

Acquisitions part of AMX's DNA

In our view, AMX seems genuinely interested in diversifying operations. Part of its growth is due to the many acquisitions made over the years, and we think that AMX recognizes that the potential for organic growth in Latin America is limited.

Total revenue for AMX grew just 1% yoy in 3Q13, reflecting a 5pp headwind due to unfavorable exchange rates in Latin America. AMX reports in Mexican pesos, but only c.35% of revenues are generated in Mexico – in constant exchange rates, we estimate AMX to have grown c.7% yoy in 3Q13, which still means a real rate of growth in the low-single digits, when average LatAm inflation is taken into account (Figure 57).

Structural growth limitations in LatAm

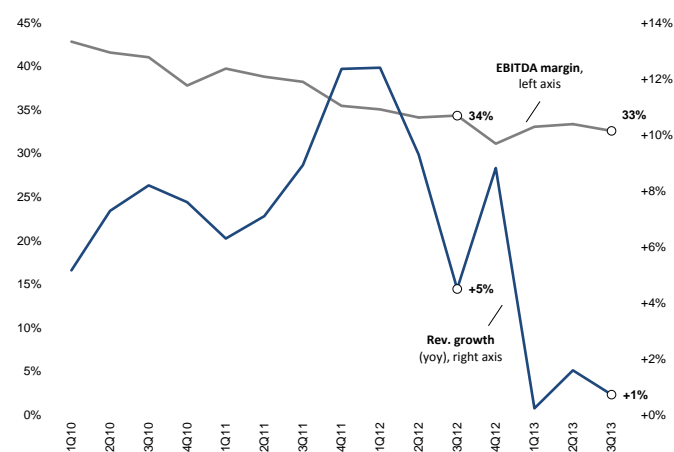
More importantly, however, AMX's business seems to be facing structural limitations in the region, with (1) overall mobile saturation in Latin America, (2) competition driving pricing down, and (3) regulation, whereby mobile termination rates are dropping in some of AMX's most important markets. This combination also impacts margins and profitability, so that EBITDA has now dropped 4% on average in each of the last four quarters. Net earnings dropped 22% in the last four quarters (trailing).

Figure 64. Underlying growth now slightly faster than average LatAm inflation
Revenue-weighted impact of FX depreciation, revenue-weighted inflation

		Revenues		%	3Q13 local-FX	FX	Inflation
	FX	3Q12	3Q13	revs.	growth (yoy)	impact	2013E
Mexico	MxP	68,397	68,181	36%	-0.3%	+0.0%	+3.5%
Brazil	BRL	7,589	8,368	23%	+10.3%	-11.8%	+5.9%
United States	USD	1,275	1,494	10%	+17.2%	-0.5%	+2.5%
Colombia & Panama	COP	2,490	2,713	9%	+9.0%	-6.3%	+2.4%
Caribbean	USD	958	973	6%	+1.6%	-0.5%	+2.4%
Arg., Par. & Ur.	ARS	3,707	4,504	5%	+21.5%	-17.3%	+26.0%
Ecuador	USD	388	436	3%	+12.4%	-0.5%	+3.7%
Peru	Sol	1,115	1,240	3%	+11.2%	-7.5%	+3.7%
Chile	Ch\$	174,724	196,913	3%	+12.7%	-7.3%	+2.6%
Revenue-weighted average					+7.5%	-6.8%	+4.8%
Reported 3Q13 growth						+0.7%	

Source: Company data, Citi Research

Figure 65. Growth slows, margins continue to erode
Reported revenue growth (yoy), EBITDA margin



Source: Company data, Citi Research

Increased regulatory pressures in Mexico

In addition, we think that upcoming regulation in Mexico will likely intensify the operating pressure in AMX's home market. Today, AMX brings c.36% of revenues from Mexico and 47% of EBITDA. The new regulator (IFETEL) – and the federal administration – seems keen to stimulate competition in Mexico and is expected to publish and implement new rules for telecoms in early 2014.

Generally speaking, IFETEL seems concerned about AMX's 70% mobile market share and could implement new measures to strengthen smaller operators Teléfonos Mviles, Iusacell and Nextel Mexico there. Generally speaking, we think that IFETEL could implement asymmetric termination rates, so that AMX's Mexico mobile operator, Telcel, would incur higher rates for outgoing calls than it collects when its subscribers receive a call from another network. In essence, Telcel would then subsidize smaller carriers – all else equal, this would pressure AMX's margins in Mexico, and expand that of competitors.

In addition, IFETEL could also sell the 700MHz frequency to a public-private partnership (PPP) – once that swath of spectrum is cleaned up of analog television broadcasters – who would in turn sell much-needed airwaves at wholesale prices to

mobile carriers. IFETEL could also apply the same PPP structure to sell wholesale fiber capacity of the national utility company CFE's 16k mile-long backbone. We think this combination could potentially reduce the necessary investments for smaller operators to expand wireless coverage and introduce mobile-data products. While these measures would not mean additional direct costs for AMX, they should strengthen competitors' cash flows, hence intensify competition in Mexico's mobile market.

With increased operating pressures and presumably limited opportunities for growth (organic and acquisitions) in LatAm, and with much of AMX's past growth being due to M&A, it has recently resumed acquisitions. In 2012, AMX bought c.30% of Dutch telco KPN and c.23% of Telekom Austria in several market-based transactions, and in August 2013 it launched a voluntary offer to acquire the shares it did not already own in KPN.

However, the offer was blocked by the KPN foundation, and AMX backed out of it in mid-October. With a transaction with KPN then presumably off the table, the number of potential sizeable targets in Europe also drops. With that, we think that AMX might look for alternative geographies to stimulate growth, and a potential transaction involving AT&T and Vodafone, might make sense for AMX if it is able to acquire VOD's assets in emerging markets, potentially including Eastern Europe or India.

Vodafone Group PLC

Company description

Vodafone operates near globally, providing a range of telecoms services centred on mobile. Vodafone has equity interests in 26 countries and partner networks in over 40.

Investment strategy

We rate Vodafone Buy. We expect Vodafone to benefit from high exposure to emerging market assets but the company faces ongoing revenue pressure in Europe. Its exit from US associate Verizon Wireless will lead to a substantial capital distribution to shareholders and a much more lightly geared balance sheet.

Valuation

Our target price of £2.60 ex 11p dividend for Vodafone is based on a 50/50 average of a conventional SOP and a transaction SOP, which assumes a control premium is paid for its assets. Post closing of the VZW deal, Vodafone shareholders will receive around 77p/share in Verizon common stock and 31p/share in cash denominated in dollars.

Risks

Risks that could prevent the shares from reaching our target price include: competition, regulation, technological obsolescence, translation impacts from exchange rates, M&A and spectrum costs.

AT&T Inc

Company description

AT&T Inc (T) is the largest telecom company in the United States, with roughly 35 million access lines as of the end of 2012, and owns 100% of the wireless carrier AT&T Mobility, giving the company roughly 107 million wireless subscribers as of the end of 2012.

Investment strategy

We rate AT&T Neutral (2) based on: 1) slow revenue growth prospects in 2013 are likely to weigh on EPS growth in 2014; 2) revenue contributions from new initiatives will likely need at least a year before they become meaningful; and 3) further multiple expansion will become more challenging without better top-line growth.

Valuation

Our \$38 target price for AT&T Inc. is based on the average of the following valuation methodologies.

Our DCF analysis uses a weighted average cost of capital (WACC) of 5.9% (based on a beta of 0.7, a risk-free rate of 2.65%, a market risk premium of 5.70%) and a consolidated terminal growth rate of 0.5% to arrive at a firm value estimate of roughly \$288 billion, net of an adjustment downward by \$17 billion, including the recognition of liabilities around pension and other post-retirement benefits that are partially offset by the estimated value of some of the combined companies' other investments and net debt of around \$79 billion to arrive at an equity value of around \$209 billion or around \$40 per fully diluted share.

We apply a 6.5x FV/OIBDA multiple on our 2014 OIBDA estimate of \$42.8 billion. We believe the diversified telcos in our coverage universe should trade at 4-7x our '14 OIBDA given similar growth prospects. We expect an OIBDA CAGR of 2.2% in 2014-17, yielding a fair value of around \$38 per share.

We use a P/E multiple of 14x our 2014 EPS estimate of \$2.63 and we estimate a CAGR of 4.4% for EPS in 2014-17. Our P/E analysis supports a value of around \$37 per share.

Risks

Risks to our thesis for AT&T are based in part on its relatively conservative balance sheet and large-cap market capitalization, but also reflect the elevated level of industry risk that may sustain greater share price volatility in the medium term. Industry risks include: the intensity of competition could increase or decrease beyond what is anticipated in our models; distressed carriers restructure; competitive pricing among telecom segments; and competition within its local business, as CLECs take advantage of resale relationships.

Company decision risks include: potential pursuit of an another acquisition to improve synergy opportunities, potentially providing a risk for the share price and valuation; a fiber to the node strategy that could pressure FCF generation if it accelerates the build-out plan; and offering a IP video service that carries execution risk of rolling out a new service. Also, AT&T's equity value could be diluted by a rise in interest rates.

If the negative or positive impact from these risks turns out to be greater than we anticipate, then it could result in an upside or downside risk to our target price.

SoftBank

Investment strategy

We rate the shares of SoftBank Neutral/High Risk (2H), with a ¥7,500 target price.

In the mainstay domestic mobile operations, the three major mobile carriers now all handle the iPhone, so moving forward we think they will find it difficult to differentiate themselves on handsets and that the locus of competition will shift to networks. We see SoftBank as aggressively offering a lifestyle solution using multiple devices (smartphones, tablets, etc.) on multiple networks (mobile and fixed-line). We think it is being seen as a next-generation telecom infrastructure company expected to gain market share along with KDDI. However, Softbank's bundled services are limited to areas in which it provides fixed-line communication services (mainly xDSL) and it only conducts agency sales of FTTH lines of other companies, so we think its bundled services are less appealing than those of KDDI. We see the SoftBank Mobile earnings growth rate slowing to single digits from double digits.

We take a cautious line on the North American operations, seen as the longer-term growth driver. Our Sprint analyst sees Sprint moving into the black at the operating line from FY3/15 but forecasts that net interest-bearing debt will swell to around \$29bn by end-2014 (1.5x forecast 2014 OIBDA) on the acquisition of Clearwire and expanded investment. Given slowing growth rates in the domestic mobile business and the earnings and interest-bearing debt situation in the North American operations, we think the near-term good news has been priced in.

Valuation

We calculate the enterprise value of telecom companies using a DCF model and our longer-term earnings forecasts. Our DCF model assumes an expected growth rate (FY3/20 and out FCF terminal growth rate) of -5.0%, as we think the downtrend in the domestic telecom market will continue over the long term. For the risk premium, we employ 5.0%, deducting 0.5ppt from the recent TOPIX earnings yield of 5.5%. For beta, we use 0.99, the five-year TOPIX relative beta. As a result, we calculate WACC of 3.70%.

However, SoftBank has diversified operations, so we also value the shares using a sum-of-the-parts approach. We calculate value for the domestic telecom operations (SoftBank Mobile, SoftBank Telecom, Willcom, WCP, etc.) using DCF, for eAccess at the TOB price when SoftBank acquired it, for the listed companies at our target prices for Yahoo Japan, GungHo, Sprint, Renren, and Yahoo! Inc., for the other listed companies at market value, and for the unlisted companies using the valuations of similar companies and market consensuses reported by various media.

Our DCF model yields fair value of close to ¥3.54trn, which we take as the value of SoftBank's domestic telecom operations. We estimate the after-tax value of asset holdings at ¥7.09trn, net liabilities other than in domestic and overseas telecom operations and at major subsidiaries at ¥2.27trn, and tax assets at ¥0.16trn. This generates equity value of ¥8.51trn and per-share value of ¥7,173. We set our target price at ¥7,500, close to this. Our ¥7,500 target price equates to an EV/EBITDA multiple of 7.0x (FY3/15E) and a PBR of 3.4x (FY3/15E). Breaking out our domestic telecom value estimates by business, we value the domestic mobile telecom business at an EV/EBITDA multiple of 6.2x (FY3/15E) and the domestic fixed-line telecom business at an EV/EBITDA multiple of 2.3x (FY3/15E). We note that non-business value accounts for a considerable proportion of EV (mainly the value of equity in investments). Non-business value could fluctuate considerably moving forward, depending on developments with the earnings of companies in which SoftBank has investments and the equity markets.

Risks

We think the risks that the share price will not reach our target price include: 1) intensifying competition in the smartphone market leading to changes in SoftBank Mobile's rate policy and sales strategy and resultant volatility in ARPU, SACs, SRCs, churn rate, and replacement rate; 2) the risk that marketing expenses, capex, and construction costs, etc., in the domestic fixed-line telecom business greatly exceeding our expectations and rise; 3) the pace of earnings improvement at Sprint Corp. falling below our expectations due to intensifying competition in the North American mobile market or the capex burden surging beyond our expectations; 4) deterioration in the operating environment in Japan and overseas and the balance-sheet burden rising; 5) considerable changes in the direction of telecom industry administration and legislation having a substantial deleterious impact on the potential market size and profitability of the mobile telecom, fixed-line telecom, Internet, broadcasting, and other businesses; 6) changes in national and regional regulations that would affect the asset value of the domestic and overseas companies that SoftBank owns; and 7) major changes in business portfolios or management strategies at the company or its peers resulting from M&A or other activity. If the impact of any of these factors on our business model or earnings forecasts differs from our expectations, the share price may diverge from our target price.

We rate the shares High Risk (H) because unlike its sector peers, SoftBank has a diverse business portfolio. Its balance sheet leverage is also high because of its proactive M&A stance. Moreover, it is invested in start-up businesses and firms in developing markets, so its shares tend to be highly volatile as it is impacted by changes in the share prices of its investment targets.

América Móvil

Company description

América Móvil is Latin America's largest telecom provider with integrated services throughout eighteen countries in the region. As of 3Q13, América Móvil served 329 million customers, 262 million with mobile services – that produce roughly two thirds of revenues, and 67 million fixed-line voice, broadband and pay-TV unique users. About one third of revenues are generated in AMX's home market, Mexico. And despite its origins in Latin America, América Móvil is now expanding to the United States (AMX owns 98% of mobile operator T-Mobile) and Europe (30% of Dutch telco KPN and 24% of Telekom Austria, TKA).

Investment strategy

We rate AMX a Neutral with a price target of \$23. We like AMX's geographical and product diversification and the fact that it is able to leverage its infrastructure to cross-sell different products. AMX has defensive characteristics, provided by relatively low leverage and strong cash generation – this combination has historically allowed for healthy cash distribution to shareholders via buy-backs and dividends, as well as strategic acquisitions to integrate operations in Mexico and Brazil. As of late, however, AMX has deployed cash instead to acquire minority stakes in KPN and TKA, temporarily reducing cash dividends, but without bringing any immediate visible contributions to revenues and/or EBITDA. The company is also now facing strong regulatory and competitive headwinds that pressure its market-share positioning and pricing power in two of its biggest markets, Mexico and Brazil. In the end, growth (FX Neutral) is now 3pp faster than the average inflation in the region, but margins continue to deteriorate.

Valuation

Our 12-month price target for América Móvil is \$23 per share. This is based on a DCF exercise, with relative value analysis used as "sanity check". At this price, AMX would trade at a forward EV/EBITDA of 5.6x. This is a slight premium to global telcos, and we think it is justified by the stronger growth potential of Latin America. In the last three year, AMX traded with an average multiple of 5.6x. Our DCF analysis is based on discounting cash flows to equity holders. Because AMX operates in so many markets, we discount its cash flows using a WACC (9.2%) – based on the revenue-weighted average of the sovereign spreads (over the 10-year US Treasury) of the countries in which it operates, and a perpetual growth rate of 2.5%.

Risks

Upside. Stabilization of margins and/or a re-acceleration of growth; a healthier policy to distribute cash flows to minorities, and stronger currencies. Lastly, AMX might finally receive its long-awaited pay-TV license, which would give exposure to the fast-a growing market in Mexico.

Downside. Besides the historic macro volatility in the region, weak exchange rates would pressure reported growth (two third of revenues come from outside of Mexico and in currencies other than AMX's reporting currency, the Mexican peso) and earnings potential (due to AMX's un-hedged portion of US\$-denominated debt). Competition and regulation are potential sources of continued pressures on operations. And lastly, a take-over of KPN could prevent dividends in the near term.

Sprint Corp

(S.N; US\$7.64; 2H)

Valuation

Our fundamental valuation of Sprint of \$7.00 uses the simple average of three methodologies (DCF, P/FCF, and EV/OIBDA):

On a P/FCF (CFFO-Capex) basis, we apply a 40x multiple to our 2016 fully-diluted estimate of \$0.19 to arrive at a value of around \$7.40 per share, with a FCF CAGR 2016E-2018E of 122%. We discount the share price back to YE14E to arrive at an equity value of around \$6.30 per share.

On an EV/OIBDA basis, we value Sprint at 7.0x our 2015 adjusted OIBDA estimate of \$8.1 billion ex non-cash stock compensation expense; this implies an enterprise value of \$56.8 billion, plus adjustments of \$4.1 billion. We subtract 2015E net debt of \$29.9 billion to arrive at an equity value of \$30.9 billion, or around \$7.40 per share, which we discount back to around \$6.80 at YE14.

Using a DCF analysis, we estimate an operating enterprise value of \$55.5 billion at year-end 2014. We then subtract net debt of \$28.2 billion and add total adjustments for present value of NOLs of \$3.8 billion (including option proceeds), which generates an equity value of around \$7.60 per fully-diluted share. Our DCF incorporates a WACC of 6.6% on a beta of 1.0, risk-free rate of 2.65%, equity risk premium of 5.69%, debt-to-total capital ratio of 40%, incremental cost of borrowing of 6.5%, and long-term cash flow growth assumption of 1.0%.

Risks

Risks to our thesis for Sprint reflect the increased volatility of earnings as well as low visibility of restructuring plans to improve marketing strategy.

Upside risks to our target price include: 1) reaccelerating marketing share gains more quickly than anticipated following large-scale investment in the network; 2) realizing synergies from the SoftBank and Clearwire transactions more quickly than anticipated and improving the marketing cost structure; and 3) participating in additional industry consolidation scenarios, which could be meaningfully accretive to Sprint's valuation factoring in possible synergy opportunities.

Downside risks to our target price are slowing industry growth, losing further marketing share in its CDMA segment as it focuses on network investment, high subscriber acquisition costs, exposure to sub-prime customers in a tough economy in both its postpaid and prepaid segments, ARPU and cash flow risk from cheaper rate plan promotions and maturing smartphone penetration, revenue pressure in its LD/Enterprise segment, increasing exposure to more volatile prepaid subscriptions, and integration risk from completed acquisitions. Sprint is in the middle of a highly-complex network transition that is limiting the company's current ability to market a national 4G LTE service, while retaining a level of execution risk associated with the market-by-market network migration.

Notes

Appendix A-1

Analyst Certification

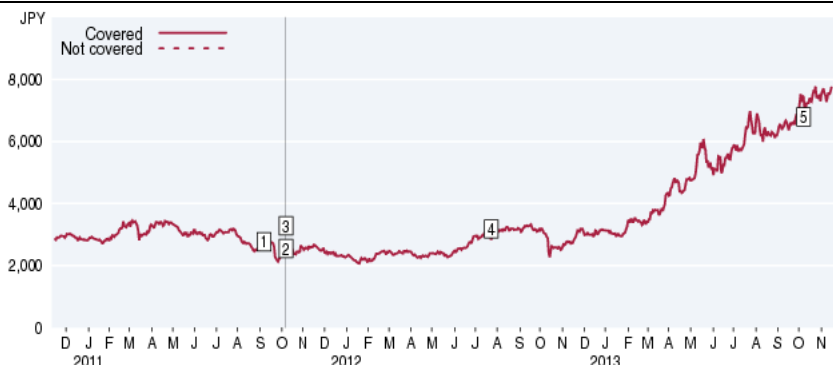
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IMPORTANT DISCLOSURES

SoftBank (9984)

Ratings and Target Price History Fundamental Research

Analyst: Hideki Takoh



	Date	Rating	Target Price	Closing Price
1	7-Sep-11	*2M	*2,900	2,770
2	7-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
3	7-Oct-11	*2H	*2,800	2,456
4	24-Jul-12	*1H	*3,700	2,833

	Date	Rating	Target Price	Closing Price
5	8-Oct-13	*2H	*7,500	7,420

Rating/target price changes above reflect Eastern Standard Time

SoftBank (9984)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Hideki Takoh



	Date	Rating	Target Price	Closing Price
1	22-Dec-11	*ADD LP	-	2,316

* Indicates change

	Date	Rating	Target Price	Closing Price
2	19-Mar-12	*REM LP	-	2,419

Rating/target price changes above reflect Eastern Standard Time

America Movil (AMX.N)

Ratings and Target Price History Fundamental Research

Analyst: Lucio Aldworth

Covered since August 6 2013



	Date	Rating	Target Price	Closing Price
1	6-Jun-11	1M	*29.50	24.13
2	8-Oct-11	Stock rating system changed		
3	13-Dec-11	*1	*28.00	22.39
4	16-Mar-12	1	*29.00	24.20

* Indicates change

	Date	Rating	Target Price	Closing Price
5	24-Jul-12	1	*31.00	26.09
6	22-Oct-12	1	*30.00	26.09
7	20-Nov-12	*2	*25.00	23.48
8	11-Mar-13	Coverage terminated		

	Date	Rating	Target Price	Closing Price
9	6-Aug-13	2	*23.50	21.37
10	1-Nov-13	2	*23.00	21.54

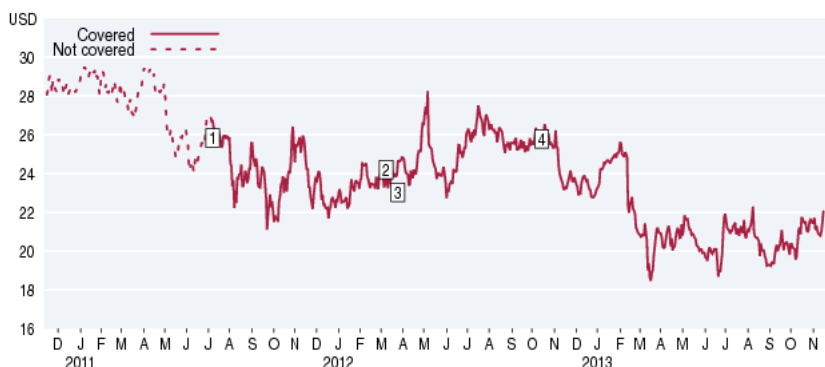
Rating/target price changes above reflect Eastern Standard Time

America Movil (AMX.N)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Lucio Aldworth

Covered since August 6 2013



	Date	Rating	Target Price	Closing Price
1	7-Jul-11	*ADD MP	-	26.73
2	8-Mar-12	*REM MP	-	23.73

* Indicates change

	Date	Rating	Target Price	Closing Price
3	26-Mar-12	*ADD MP	-	24.68
4	15-Oct-12	*REM MP	-	26.17

Rating/target price changes above reflect Eastern Standard Time

Vodafone Group PLC (VOD.L)

Ratings and Target Price History Fundamental Research

Analyst: Simon Weeden



	Date	Rating	Target Price	Closing Price
1	9-Dec-10	1L	*1.95	1.64
2	21-Sep-11	1L	*1.80	1.63
3	7-Oct-11	Stock rating system changed		
4	8-Oct-11	*1	1.80	1.70
5	23-Nov-11	1	*2.05	1.66

* Indicates change

	Date	Rating	Target Price	Closing Price
6	10-Feb-12	1	*1.95	1.73
7	4-May-12	1	*1.90	1.72
8	8-Aug-12	1	*2.10	1.91
9	14-Nov-12	1	*1.90	1.61
10	7-Jan-13	1	*1.80	1.60

	Date	Rating	Target Price	Closing Price
11	4-Feb-13	*2	1.80	1.71
12	18-Mar-13	*1	*2.15	1.85
13	2-Sep-13	1	*2.30	2.13
14	6-Sep-13	1	*2.35	2.11

Rating/target price changes above reflect Eastern Standard Time

Vodafone Group PLC (VOD.L)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Simon Weeden



	Date	Rating	Target Price	Closing Price
[1]	14-Jun-11	*ADD MP	-	1.61

* Indicates change

	Date	Rating	Target Price	Closing Price
[2]	7-Sep-11	*REM MP	-	1.63

Rating/target price changes above reflect Eastern Standard Time

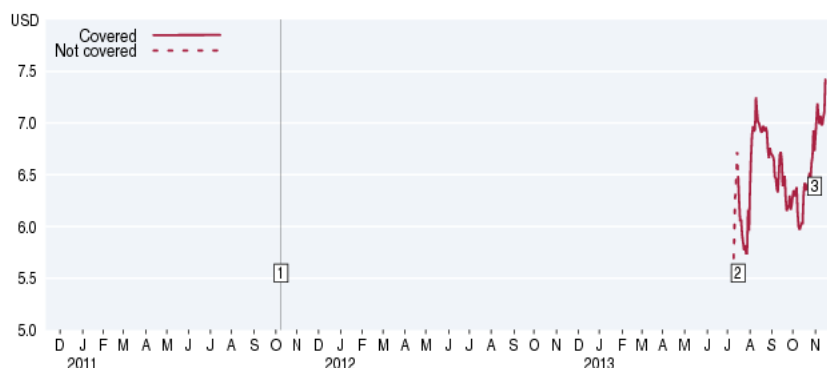
Sprint Corp (S)

Ratings and Target Price History

Fundamental Research

Analyst: Michael Rollins, CFA

Covered since July 16 2013



	Date	Rating	Target Price	Closing Price
[1]	8-Oct-11	Stock rating system changed	-	-

* Indicates change

	Date	Rating	Target Price	Closing Price
[2]	16-Jul-13	*2H	*6.50	6.48

Rating/target price changes above reflect Eastern Standard Time

	Date	Rating	Target Price	Closing Price
[3]	31-Oct-13	2H	*7.00	6.73

Sprint Corp (S)

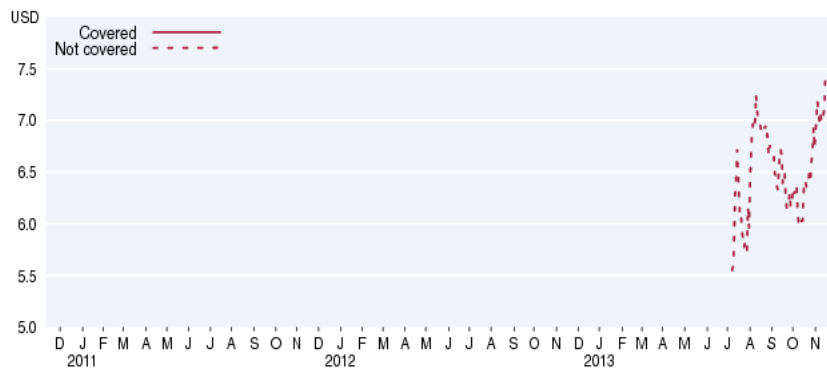
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Michael Rollins, CFA

Covered since July 16 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AT&T Inc (T)

Ratings and Target Price History Fundamental Research

Analyst: Michael Rollins, CFA



	Date	Rating	Target Price	Closing Price
1	21-Mar-11	*1M	*33.00	28.26
2	5-Apr-11	1M	*34.00	30.70
3	9-May-11	1M	*35.00	31.35
4	31-Aug-11	1M	*32.00	28.48

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	32.00	28.44
7	24-Apr-12	1	*34.00	31.72
8	29-Jun-12	1	*39.00	35.66

	Date	Rating	Target Price	Closing Price
9	24-Apr-13	*2	39.00	37.04
10	24-Oct-13	2	*38.00	34.63

Rating/target price changes above reflect Eastern Standard Time

AT&T Inc (T)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Michael Rollins, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	28.23

* Indicates change

	Date	Rating	Target Price	Closing Price
2	21-Mar-11	*ADD MP	-	28.26

	Date	Rating	Target Price	Closing Price
3	21-Jun-12	*REM MP	-	35.03

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Sep 2013

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	40%	12%	6%	87%	6%
% of companies in each rating category that are investment banking clients	55%	50%	43%	64%	51%	48%

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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