

Europe Satellite*

Recommended since 03.05.2018

28.03.2023



Country NL	Market capitalization (bn) EUR 13,0	Perf. since reco. (%)
Sector Telecommunications	Free float 79,4%	Royal KPN NV 26,5
Factset KPN-NL	Closing price EUR 3,23	Sector -21,9
ISIN NL0000009082	ESG Risk score* 17,5 Low risk	

Profile

KPN is the incumbent and dominant operator in the Dutch telecom market. It provides fixed-line telecommunications services, including voice, data, Internet, and IPTV, as well as mobile telecommunications services (voice and data), for residential and business customers. Also of note is wholesale traffic (services to other operators). The Group, which is concentrated in the Netherlands, holds some 40% of the mobile and broadband market. More than 50% of its customers use convergent fixed-line and mobile offerings.

Strengths/opportunities

- ⊕ A pure Dutch player, KPN has a very high-quality network and customer satisfaction rate.
- ⊕ Fixed-mobile convergence and partnerships still have potential, especially in the corporate market.

Weaknesses/threats

- ⊖ The Dutch market is mature (offering low growth), with strong competition (mobile, B2B).
- ⊖ Regulation and competition are the main threats, as well as the development of CapEx and 5G costs.

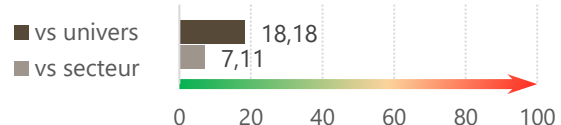
Investment case

- ⊕ KPN represents a particularly clear investment model within the telecoms sector: a single country, traditional activities for consumers and businesses (exposure to fixed-line services for 70% of revenues), the development of fixed-mobile convergence thanks to the deployment of a high-quality broadband network (fibre).
- ⊕ In the longer term, the fixed-line network will retain its importance. KPN is therefore a defensive operator, with reasonable debt leverage (Net Debt/EBITDA 2020e ~2.5x), which has resumed its investments in fibre-to-the-home (FTTH) networks since the beginning of 2019, and is therefore less at risk in terms of CapEx than other operators. The CapEx have peaked in 2021, estimated at € 1.2 billion.
- ⊕ The recent 5G mobile spectrum auction in the Netherlands leaves KPN in a good position. The overall auction brought in some EUR 1.23 billion to the government. The cost is therefore very bearable for the three operators, including EUR 416 million for KPN. Following this transaction, KPN owns 31% of the available frequencies (after T-Mobile NL, 37%, and Vodafone-Ziggo, 32%).
- ⊕ Apart from competition and regulation, the Group's main challenge is the slow recovery of the corporate market. On the CapEx side, KPN manages the deployment of broadband networks, while pursuing an efficient cost-saving policy.
- ⊕ After a rather solid Q4-2022, the services on the mass market will start to grow again. The 2023 guidance targets "slight growth" in Ebitda as a result of higher energy and salary costs.

Valuation

With an EV/EBITDA ratio of around 7.3x, the stock is certainly not cheap (6.6x for the average of its peers) but reflects the high quality of the business model. The dividend yield is 4.8% (vs. 5.1% for its peers).

ESG risk vs. universe & sector (percentile)*



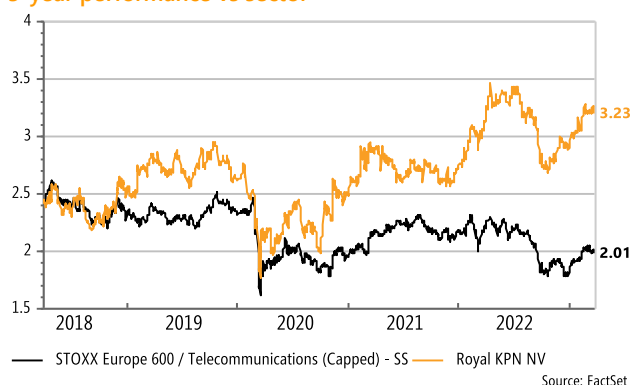
EUR	12/2022	2023e	2024e
Sales revenue (mio)	5 324	5 420	5 503
Sales growth	1,0%	1,8%	1,5%
EBIT adjusted (mio)	1 224	1 179	1 234
% of sales	23,0%	21,7%	22,4%
Net income (mio)	766	742	785
Net income growth	-40,3%	-3,2%	5,8%
FCF/Sales	23,0%	16,3%	17,5%
Net debt/Ebitda	2,7x	2,4x	2,3x
Dividend yield	4,4%	4,7%	4,9%
PE	15,5x	17,5x	16,3x
P/BV	4,4x	3,8x	3,7x

Factset estimates

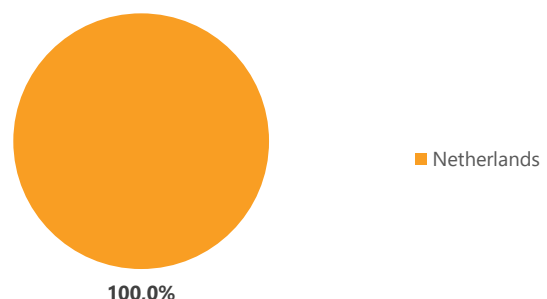
ESG - risks and key points

- ⊕ Classified as "Low risk", KPN, like the sector, is looking for zero-emissions. KPN is aiming at reducing its energy consumption by 44% by 2030, compared with 2010.
- ⊕ M&A? The sector may be considered strategic by governments (if they are shareholders --> possible conflict of interest).
- ⊕ KPN wants to improve its energy consumption, in particular through digitalisation (smart-metering, sustainable construction, e-Commerce).
- ⊕ Finally, KPN is gradually reducing its CO2 emissions with adapted vehicles (100% of the fleet converted by 2025).

5-year performance vs sector



Sales breakdown - 12/2022



Glossary

Satellite

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

ESG Risk Score

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

b-Digital, b-Transition & b-Well

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

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