

“SONAECOM”

“TELECOMMUNICATIONS”

STUDENT: “VANESSA ROUILLER”

COMPANY REPORT

6 MAY 2011

Challenging present, brighter future

End of line for Multimedia

Following our analysis of Sonacom’s strategy and market outlook, our FY11 price target is €1.92, with a *buy* recommendation.

- **Telecom – awaiting for the auction of spectrum.** Following the results of ANACOM’s auction of spectrum, a peak in CAPEX is expected for this year, with this item increasing 69%.
- **Telecom - the rising of NGN.** The NGN is now the technology to invest in. And the partnership with Vodafone will potentiate its results.
- **Information Systems’ very good performance.** The software and systems information division has been consistently showing strong results, and the prospects accompany that trend. According to our estimates this division will contribute 19% to Sonaecom’s value.
- **PÚBLICO – sale possibility.** With the press business in contraction, Público is destroying Sonaecom’s value. Its recurring negative results back our sale scenario, posed to 2012 and providing an enterprise value of €746 million.
- **Distribution of Dividends.** Following the sound performance of Sonaecom in 2010, the company distributed dividends starting 25 May 2011 at €0.05/share.

Company description

Sonaecom is a Portuguese company, mainly engaged in the Telecommunications business through the brand Optimus. The company also comprises the newspaper Público and four Software and Information Systems companies.

Table of Contents

(page #!)

Recommendation: buy

Price Target FY11: 1.92€

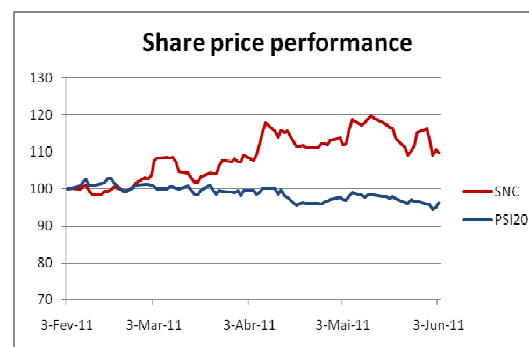
Price target sale scenario: * 2.04€

Price (as of 3 Jun 2011) 1.507 €

Reuters: SNC.LS, Bloomberg: SNC:PL

52-week range (€)	1.72-1.21
Market Cap (€m)	551.93
Outstanding Shares (m)	366.246
Average Daily Volume	498.403
PSI-20 Index Weight	0.633%

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2010	2011E	2012F
Revenues	929	915	926
EBITDA	195	186	188
Dep. & Amort.			
Net Profit	41	29	32
EV/EBITDA	3.6	3.8	3.7
EPS	0.11	0.08	0.09
P/E	13.3	24.4	22

Source: Company data for historical figures and analyst estimates

*price target obtained when incorporating in the valuation the sale of the Multimedia division.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

Executive Summary	3
Valuation.....	3
Economic Outlook	4
Company overview	5
Shareholder structure.....	
Share price performance.....	
 Telecommunications	 9
The Sector and Comparables.....	
Optimus	
Valuation	
 Information systems	 18
The Sector and Comparables.....	
Sonaecom’s Information systems	
Valuation	
 Multimedia	 21
The Sector and Comparables.....	
Público and online platforms.....	
Valuation	
 Financials	 24
 Disclosures and Disclaimer	 27

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

Executive summary

In this report we perform a valuation of Sonaecom, studying its activity and environment it is inserted in. We proceed to an analysis of each business unit, firstly defining the sector they are in and comparing to some peers, then analysing the business unit itself, and finally discussing some aspects of the individual valuation made.

In the telecom business we highlight the MTR cuts and the difference in profitability concerning mobile and wireline. For the SSI we point out its increasing growth and great prospects for the future. The Multimedia division shows being unprofitable, reason why we advise alienating it.

Valuation

In our valuation of *Sonaecom* we used the DCF method and performed a sum-of-parts (SoP) analysis, given the different markets, risks and performance results the three business units (telecom, media and SSI) are exposed to. As a consequence, a different WACC¹ (Weighted Average Cost of Capital) was calculated for each unit, for which assumptions are shown in [table 1](#). For the debt and equity values, we used as a proxy the book value of the last reported year (2010) for each of the units.

Table 1 – WACC assumptions

	Telecom	SSI	Media
WACC	10,47%	9,43%	6,69%
D	790	78	14
E	919	54	2
V = D+ E	1710	132	16
r _r	3,01%	3,01%	3,01%
β	1,27	1,42	1,32
market premium	5%	5%	5%
CR	4,8%	4,1%	4,8%
r _e	14,9%	15,3%	15,4%
r _d	7,40%	7,40%	7,40%
t	27,5%	27,4%	27,5%

The cost of debt is assumed to be the same across all business units since Sonaecom incurs into debt contracts at the company level, and then distributes the capital by the different divisions. We assumed a cost of debt of 7.4%, obtained by comparison with the yields of the 10 year-bonds of two countries (Portugal and Germany), two Portuguese PSI20 companies with publicly quoted debt (PT and EDP), and European telecom companies, – see [appendix 1](#).

Concerning the cost of equity, the risk free rate used was the 10-year German government bond yield. The country risk (CR) used to compute the risk premium differs only for the SSI, as the telecom and media businesses are undertaken only in Portugal while the SSI division, performing its activity internationally, is exposed to other countries’ specific risks. For the SSI this risk was calculated as

¹ $WACC = \frac{D}{V} r_d (1 - t) + \frac{E}{V} r_e$, where: D-debt, E-equity, V-value=D+E, r_d-cost of debt, t-tax rate, r_e-cost of equity

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

WACC assumptions

an average of the risks of the countries the companies are in², weighted by the percentage revenues each company has on each specific market and then by the percentage contribution of each company to the total SSI. Additionally, a market premium of 5% was considered. The corporate tax rate considered for the telecommunications and the Online & Media divisions for the coming years is of 27.5%, as it is expressed in the 2011 Portugal’s State Budget. For the SSI we applied the same methodology used to calculate the country risk premium.

We assume a 10 years explicit forecast period since we consider it as a reasonable period for the company’s cash flows to stabilize. In 2021 we applied a terminal value³ to assess the value of the company on a going concern, with a 2% nominal annual growth rate for the Telecom and SSI divisions and 0% growth for the Multimedia unit.

Economic Outlook

In a moment when Europe (and Portugal in particular) is struggling economically, companies are consequently challenged in terms of performance. And it is not possible to analyse a company without looking at the environment it is inserted in.

Having its core operations in Portugal (exception made for the SSI), Sonaecom is exposed to the developments of the Portuguese economy, either in terms of financing, direct revenues (as customers may be cutting monthly expenses), or in terms of the desirability of its stock in the international market. The austerity measures certainly affect consumption habits, which results in a loss in the consumers’ purchasing power - CPI⁴ rose from -0.8% in 2009 to 1.4% in 2010, as a result of the tax increases imposed throughout last year, either over consumption (for instance, VAT rose from 21% to 23%) and income. This in turn will most probably hit Sonaecom’s revenues in the near future (as it already happened in 2010). In fact we found a moderately significant correlation (0.67) between CPI and telecom revenues from sales and services rendered for the historical years considered - 2003 to 2010. This correlation is more significant than the ones calculated for TMN and Vodafone, meaning Optimus should be more vulnerable to the macroeconomic environment in Portugal than its competitors – from 2009 to 2010, TMN. Therefore we conclude that this purchasing power variation has some impact on Optimus’ revenues, although that effect is not straightforward. Indeed Sonaecom has shown resilience during

Hit in revenues...

² Countries considered (weight in the average calculation between brackets): Portugal (79.5%), Spain (7.5%), Australia(1%), Brazil (1%), Chile (1%), Egypt(1%), France(1%), Ireland(1%), Malaysia(1%), Mexico(1%), Panama(1%), Poland(1%), Singapore(1%), UK(1%), USA(1%).

³ $TV_{2021} = CF_{2022} \times \frac{1+g}{WACC-g}$, where: WACC – weighted average cost of capital; g – growth rate

⁴ CPI – Consumer Price Index; it measures the change in the price level of consumer goods and services. Data source: OECD/INE.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

challenging economic times, and the results obtained in 2010, a year of economic recession in Portugal, prove exactly that - Sonaecom achieved net profit results of 41 million euros against 6 million euros in the previous year. The company was able to control the situation by managing costs more effectively, following last years' strategy of the company.

Expected MTR decrease

Moreover, the memorandum of understanding signed between the Portuguese government and the 'troika'⁵ predicts some measures to be taken in telecommunications sector in order for more competitiveness. Namely a further decrease in the mobile termination fees, scheduled for the third quarter of 2011, and which will once more affect Optimus' revenues. Nevertheless, such a decrease was already in ANACOM's plans for the end of this year...

Note that the probable impact of the Portuguese economic crisis is already accounted for in the estimations for the coming years, and a recovery of the revenues is predicted starting in 2013, following the Portuguese economy's prospects.

Also some assumptions for the WACC, and consequently the enterprise value, are affected by these macroeconomic conditions, namely the cost of equity and the cost of debt which incorporate the country risk (which is higher nowadays for Portugal), and the increased corporate tax rate imposed in the State Budget in response to austerity measures, delivering a higher tax shield.

Company overview

Sonaecom is a Portuguese company created in 1994, listed on the PSI-20 index since June 2000, and having telecommunications as its core business under the brand *Optimus*. The company is also engaged in the media business through the newspaper *Público*, in the online sector through the websites *Público.pt* and *miau.pt*, and it also has an Information systems business unit, comprising four companies – *WeDo Technologies*, *Bizdirect*, *Mainroad*, and *Saphety*.

Shareholder structure

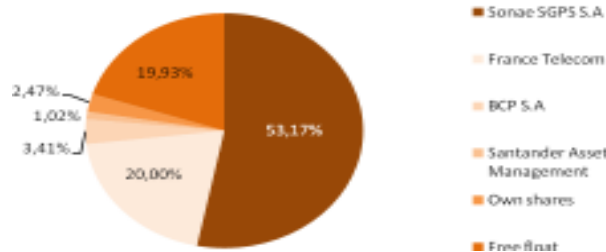
The share capital of *Sonaecom* is composed by 366,246,868 shares with the nominal value of 1 euro each, all ordinary, following the rule "one share one vote" and having no restrictions concerning ownership or transfer. According to the company's most

⁵ Troika is the name given to the group of three entities (European Central Bank, European Commission and International Monetary Fund) which joined in order to provide financial aid to the European Union countries in distress.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

recent information,⁶ shareholding is currently distributed among six main groups, being this way quite concentrated.

Graph 1- Shareholder Structure



Source: Company data

With 53.17% of participation, the largest shareholder is Sonae SGPS⁷, a multinational group with businesses in retail, shopping centres and insurance. Then follows France Telecom, one of the largest telecommunications operators in the world, and which owns 20% of *Sonaecom* through its subsidiary Orange. BCP S.A., the pension fund for the largest private banking institution in Portugal, holds 3.41% of the shares of the company since 2009 when it entered the company’s share capital with 12,500,998 euros. Santander Asset Management (SAS) follows, with a shareholding of 1.02%. Moreover, *Sonaecom* currently holds a total of 9,256,357 own shares (2.47% of shareholding), which are to be delivered to its employees under its Medium Term Incentive Plan (MTIP). And finally, the last component of the share capital is the free float, i.e. the shares freely available to the market and held by a large number of small investors, which amounts to 19.93% of the company’s ownership.

Concerning the historical evolution of the share capital of *Sonaecom*, there were two share capital increases during the historical period analyzed (2003-2010), both undertook to allow for the entry of some company on the share capital of *Sonaecom*. The first occurred in 2005 and is explained below, and the second happened the year after to accommodate the roll-up of EDP (through its telecom subsidiary 093X) and *Parpublica*, which were previously shareholders of *Optimus*. This last share capital increase amounted to 69.7 million euros. After some years as a shareholder, *EDP* divested its participation in *Sonaecom* in October 2009.

And to mention some movements in the shareholding, in 2008 FT increased its participation in 2,972,506 euros through its subsidiary *Atlas Service Belgium*. Also,

⁶ As of 2 May 2011

⁷ Sonae is the major shareholder via the participations of the companies of the Sonae ‘universe’, namely Sonae Investments BV, Sontel BV and Sonae SGPS itself.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

the following year (in October 2009) SAS entered into the company's share capital investing 7,408,788 euros, which was equivalent to a 2.02% shareholding. This year this shareholding was reduced to 1.02%.

Also worth discussing is the fact that the two biggest shareholders *Sonae SGPS* and *France Telecom* (henceforth called FT), entered on 9 June 2005 into a shareholders' agreement⁸ stating a strategic partnership by which FT would provide strategic cooperation to *Sonaecom's* telecom business during 3 years. In exchange, FT's participation in *Optimus* (20.18%), *Novis* (43.3%), and *Clix* (43.3%) would be traded for a participation of 23.7% in *Sonaecom*, made possible through a share capital increase of 70.27 million euros (to 296.6 million euros). Under the agreement this participation could not be sold within 18 months after *Sonaecom's* share capital increase deed, which occurred on 15 November of the same year. Also, during that period FT would be the preferred buyer in case *Sonae* decided to alienate at least 80% of its participation in *Sonaecom*. After that 18-month period *Sonae* would only be able to sell its share in *Sonaecom* to a third party for at least 105% of the price offered by *France Telecom*. And if FT decided to reduce its participation below 9.48% of *Sonaecom*, the sale would have to be coordinated with *Sonae*. Moreover, if the agreement was not renewed after those 18 months, *Sonae* would have the right to find another telecom operator to buy FT's shares at an average market price of *Sonaecom's* shares or at their fair market value, if the free float did not exceed 30%. Should *Sonae* not exercise this right, FT would be able to sell its shares at 90% of the fair market value and with the condition that this value did not exceed the equivalent of a 15% return on the investment. Furthermore, in the case FT decides selling shares to a third party, *Sonae* reserves the right to negotiate the terms of the transaction with the buyer. This shareholders' agreement had no ending date and it loses its validity in case either party ceases to be a shareholder of *Sonaecom*. Also, it could be terminated by one party if the other reduced its participation in more than 60%.

These situations never took place; on the contrary, in October 2008 the strategic partnership between FT and *Sonaecom* was extended for a period of 3 years. As a result, it expires in October this year. On 24 May 2011, the French operator informed the possibility of divesting from *Sonaecom*. We agree with *Sonaecom's* CEO opinion that this situation, if verified, is not concerning for the Portuguese company. Given the long relationship between *Sonaecom* and FT, *Optimus* had the time to learn from the expertise of the French operator and become autonomous. Also, after the

⁸ Source: *Sonae SGPS* and *Sonaecom*

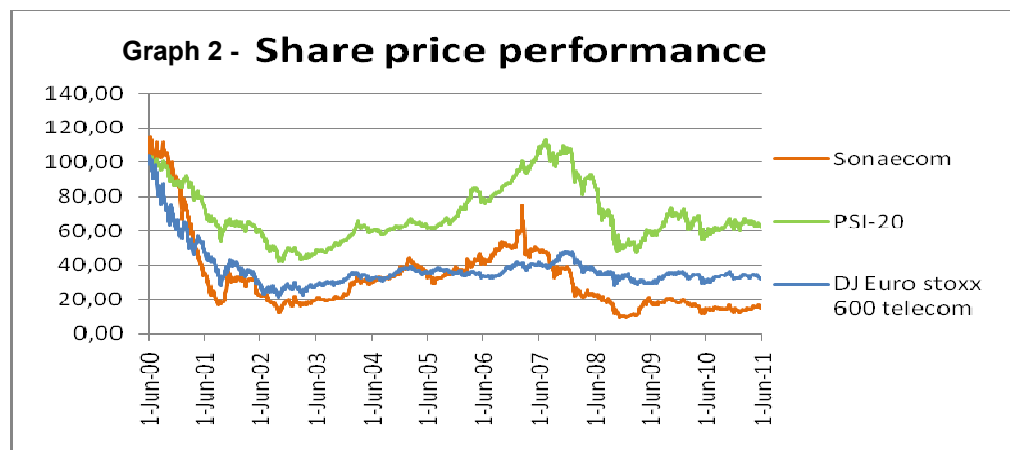
THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

excellent results the company presented this year, it will certainly not be hard to find an adequate buyer for those shares, even possibly another telecom operator.

Having no dividend distribution policy, the Shareholders’ General Assembly of Sonaecom held on the 26 April 2011 decided on the application of the earnings of the past year of 2010. For the first time the decision was taken towards a distribution of dividends to its shareholders. It started on 25 May this year according to the following rule: distribution of €0.05 per share which, after deducting the income taxes (IRS/IRC of 21.5%) becomes €0.03925 per share.

Share price performance

In the following graph we compare the share price performance of Sonaecom, PSI-20 and DJ Euro Stoxx 600 Telecommunications⁹, from the first day Sonaecom’s entered the list of PSI-20 index (1 June 2000) until nowadays.



Source: Bloomberg
 We can observe that Sonaecom’s share price has been accompanying the volatility of PSI20, going in parallel moves

After the big decline in 2000/2001, the telecom index for telecom becomes less volatile, following a quite stable path.

As for the changes in 10 years, all three shares have lost value. Sonaecom lost 85% in share price, PSI-20 lost 37% and DJ Euro stoxx lost 68% of its value.

One of the most important events impacting on the share price of Sonaecom occurred in February 2006. Then Sonaecom launched a tender offer over PT, and the market took the possibility of that association as very positive, incorporating those expectations on the share price. The share price kept increasing, reaching a spike

⁹ DJ Euro Stoxx 600 Telecommunications is a index containing the biggest telecommunication companies of Europe, which gives us an idea of the trend of the sector in the European continent.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

the day before the announcement of the final decision on the acquisition, which was then rejected by PT’s shareholders. The share price then fell abruptly.

Another important event in the period under analysis was the subprime crisis. It started at the end of 2007, and impacted negatively on the markets for a long period of time, largely decreasing the prices of the shares around the world as the investors lost confidence on the markets. PSI20 and Sonaecom were not an exception and suffered a hard hit.

Telecommunications

The Sector and Comparables

The telecommunications sector abridges two sub-sectors – the mobile and the fixed (or wireline), both having on their activity range voice, data, internet and television services.

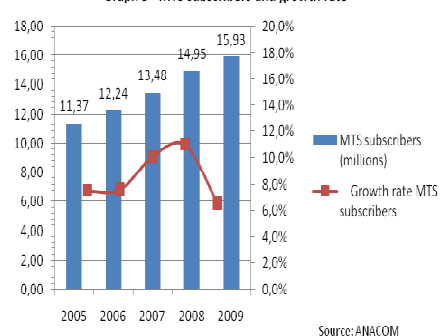
The telecom sector is very regulated in Portugal. This regulation is under the responsibility of ICP-ANACOM (*Autoridade Nacional de Comunicações*), which can also follow recommendations coming from diverse institutions of the European Union.

In Portugal, the electronic communications sector has one of the highest ratios of revenues-to-GDP of the European Union (4.52% in 2009)¹⁰, an indicator revealing the importance of this sector for the economy.

There are three main operators serving the mobile telecommunications market in Portugal, the leader being *TMN* with a market share of 44% at the end of 2010, followed by *Vodafone* with 36% and finally *Optimus* covering 20% of the market.¹¹ Market shares for the three operators have remained quite steady throughout the years; only some minor adjustments occurred, with *Optimus* gaining market share and the other two operators having their shares fluctuate. However, the decrease in the shares for *TMN* and *Vodafone* are not due to the customers switching operators, but are due to a customer growth rate lower than the one for the whole market.

The mobile sector has shown in the past its profitability and stable growth. We believe this growth will continue for the next years.

Graph 3 - MTS subscribers and growth rate

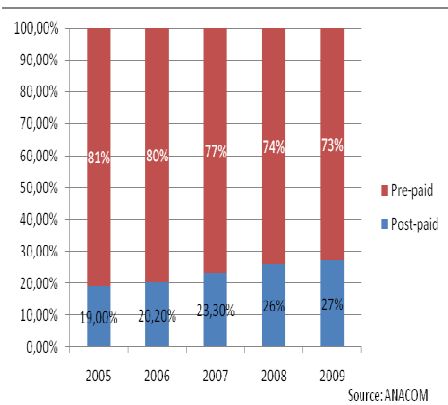


¹⁰ Source: Communications Sector in Portugal Yearbook 2009 by ANACOM; European Commission

¹¹ Analyst estimates given the information provided by ANACOM and by the companies under analysis. Values rounded-off to units.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

Graph 4 – MTS tariff scheme distribution of subscribers



The number of MTS (Mobile Telephone Service) customers in Portugal has been growing for the past few years, amounting to 15.93 million at the end of 2009. – graph 3. The growth is explained by the development of 3G services, new offers for the mobile broadband access, and the e-initiatives carried by the Government in partnership with the operators. According to Eurostat, Portugal had in 2009 the third highest rate of MTS subscribers per 100 inhabitants in Europe (151), only competing with Italy (151) and behind Greece (181). Contributing to this situation is certainly the price per call which, for a 10 minute local call, is in Portugal (€0.37) slightly below the European Union average (€0.38).

Both pre-paid and post-paid tariff schemes have been accompanying the growth path of the sector, the pre-paid scheme reaching the majority of users. However the post-paid scheme has been increasing its relative weight. – **Graph 4.** MTS voice traffic has also been increasing throughout the years, both outgoing and incoming, with a growth rate above the European average but in absolute amount still below it (approximate number of minutes per month per subscriber in 2009 in Portugal: 93 vs European average: 128).¹² One of the origins for this increase in voice traffic is the fixed-to-mobile transfer, a phenomenon by which customers leave the fixed telephone service to use the mobile one instead. However, despite this increase in traffic the revenues have been decreasing, a result of the regulation concerning mobile termination rates (MTR), i.e. the fee an operator charges for carrying a call originated in another operator’s network. Termination fees are valid for both mobile and fixed telephone services, however the MTR are much higher than the others (in fact fixed operators pay on average 9 times more to mobile operators than the mobile to fixed do). As this disparity exceeds largely the difference in underlying costs, networks or national characteristics, the European Commission decided to try to harmonize termination fees across Europe so that they can stabilize at an efficient cost-oriented level. Thus, as a deliberation of the European Commission followed by ANACOM, these fees have steadily been cut quarterly since February 2010. The fees amounted to €0.060/minute in December 2009, declining until €0.035/minute by 24 August 2011. – table 2. As a consequence, and together with price cuts in the roaming-in tariffs, ARPU¹³ has been decreasing as well– Appendix 2.

Concerning the number of Short Message Service-SMS, the ones originating in the own network have been increasing, from 4,652 million in 2005 to 25,473 million in 2009, a result of promotional campaigns undertaken by operators. With this regard,

¹² Outgoing voice traffic increased from 6461 million calls in 2005 to 8163 million in 2009. As for the incoming traffic the increase was from 6558 million calls to 8136 million.

¹³ ARPU: ‘Average Revenue Per User’

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

Portugal is one of the countries that uses SMS the most according to a sample of European countries¹⁴, positioning above the average of 86 SMS per subscriber per month in 2009. As reported by ANACOM, in 2009 the price per on-net SMS sent ranged from 0 to 19.4 cents in Portugal, according to the operator and plan chosen. The MMS price range is narrower, going from 38.6 to 40.4 euro cents per unit.

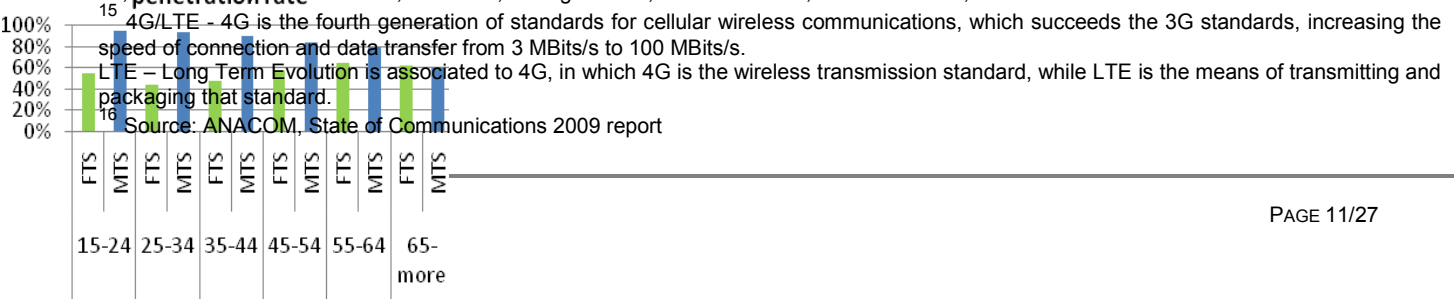
There is an increasing trend concerning the contribution of data services to the operators’ revenues – *TMN* data services grew from 13.30% of revenues in 2006 to 24.60% in 2010, and *Optimus* experienced an even higher increase, from 14.40% to 30.6%. Mobile TV, which was introduced in 2006, is one of the main reasons for that - it has been growing largely (exception made for 2009), despite its still low penetration rate.

ANACOM performs Spectrum auction

As for the future of the mobile telecommunications technology, ANACOM decided to perform an auction to attribute 33 licenses for exploration of frequencies for the new mobile network technology standard, the 4G/LTE¹⁵ service. While the auction promotes fair competition between bidders and an efficient utilization of frequencies, the battle for winning the spectrum probably leading to an excessive purchase price could endanger further developments and enhancements in the network given that such large investments increase the payback period, especially in periods of uncertainty and credit restriction by the banks, like the period we are facing at the moment. Furthermore, the final consumer would be hurt in the process, paying higher costs for the service. As a result, some operators sustain that ANACOM should assure a reasonable price range for the purchase of the frequencies, not being too high and consequently compromising the further development of the network. PT, which has made considerable investments in infrastructure, doesn’t want to share its fiber network. For this reason, *Optimus* and *Vodafone* have invested together in creating an alternative network, thus sharing the exploration of this network.

As for the players in the fixed telecommunications sector in Portugal, the incumbent operator (PT) registered a 57.6% market share in direct accesses in 2009, against 16.6% for *Optimus* and 13.6% for *ZON*.¹⁶ However, Group PT has been losing FTS direct access customers to its competitors. On the other hand, in terms of indirect accesses the incumbent has been gaining market share, mainly due to the verified

Graph X. MTS and FTS penetration rates (approximate values for 2009): Spain – 12; Romania – 22; Netherlands – 31; Slovenia – 38; Austria – 42; Finland – 42; France – 44; Sweden – 101; UK – 109; Portugal – 125; Lithuania – 153; Denmark – 157; Ireland – 187.



THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

increase in indirect customers of TMN. Moreover, the increased competition and the loss of customers in the fixed sector resulted in the incumbent decreasing the prices it charges for FTS services throughout the years – graph 6. As a result, revenues per call have been shrinking. This, together with the lower proportion of total FTS customers (which, in turn, are reducing as well), caused a break in Group PT's revenues for the past few years. Although PT's market share is quite high and seems to give little place for competition, Portugal is the country in the EU with the highest number of direct access subscribers using an alternative operator. This result began being possible after the split of ZON (former PT Multimedia) from the incumbent operator, which broke the 'reign' of PT as the almost sole fixed operator.

In terms of penetration rate the fixed services are stronger towards the older population, despite the fact that this tendency has been softening along the years. For the mobile services the trend is opposite, with the younger segment of the population having a higher penetration rate. –graph X. Note that Portugal has one of the highest MTS penetration rates of the European Union, reaching in 2009 149.9% per 100 inhabitants against the European average of 121.9%.¹⁷

The Pay-TV market has been increasing, reaching 2.7 million subscribers in 2009. According to ANACOM, the penetration rate of this service keeps increasing, from 30.3% in 2005 to 45.2% in 2009, but it still has room for future developments.

Multiple play services (packages including several services provided by an operator and sold at more attractive prices) arose by 2007 as a reactive measure of the operators against the decreasing revenues. At the time, already 29% of European households used this aggregating service. Since then, the penetration rate for multiple play services in Portugal has been increasing, reaching 23.5% households in 2008 and 33.8% in 2009. Quadruple play services (telephone, internet, television, and video) started being offered in Portugal in 2008, and in one year grew 140%.

Concerning internet services, total fixed internet penetration has been growing, reaching around 40% in 2009, which however is still not enough to reach the European average of 60%. As for fixed broadband in particular, its penetration has been increasing for the past few years, from 15.1% as of January 2008 to 18.6% two years later.¹⁸ The market leader in this segment - Group PT is well positioned, with 44.5% of the market, with its most direct competitor ZON serving 32.30% of the market. Sonaecom positions third with 9.20% of the market, and Cabovisão follows with 8% of the clients. As for mobile broadband, it has been gaining weight in the

¹⁷ Source: ANACOM

¹⁸ Source: European Commission, in 15th Progress Report on the Single European Electronic Communications Market.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

broadband market – graph X. In fact, Portugal has the second highest usage of mobile broadband of the EU, probably driven by more competitive offers in this segment and by the Government e-initiatives¹⁹ which incentivized the use of broadband by allowing the acquisition of laptops and internet access at lower prices. These initiatives suffered a deceleration in 2010, compromising the operators' equipment sales.

As for the technologies on the watch list, fiber is now perceived as the future for telecommunications, and therefore is the technology every telecommunication operator is now betting on. When compared to the existent transport devices of ADSL and cable, fiber offers several advantages such as the higher speed and longer distance at which data is transmitted, the higher quality of data delivered, the security of transmission of information, and the cost savings for the operator given that fiber requires less energy to operate and less maintenance on the network as the cables do not rust, degrade or lose signal quality.

Now analysing the comparable companies, as we already... In the telecommunications business in Portugal, the two competitors of *Sonaecom* for the mobile unit are TMN and Vodafone. In terms of the wireline offer of *Sonaecom*, PT²⁰ and ZON can be considered comparable firms. Nevertheless there are indeed some differences in the businesses of the companies under analysis, namely the fact that ZON has a strong component of the cinema business, and both the companies being the largest players on the market for pay-tv.

All the three mobile operators have youth-oriented plans (TMN has Moche, Vodafone has Yorn Extravaganza, and Optimus has TAG), which...

Concerning international companies that undertake a similar business, it is possible to point out *Telefonica* or France Telecom-Orange, the latter having a closer relationship with *Sonaecom* by contributing with expertise to its activity, as explained in the *Shareholder structure* section. Note that these so called comparables may have different sizes and range of business, however all of them have similarities to *Sonaecom*, either in its core business or in the ... The degree of comparison is questionable, since firstly, these companies undertake businesses in different markets from *Sonaecom*'s, both are even international

¹⁹ e-iniciativas in Portuguese, an initiative to distribute subsidized laptops with Internet connection to students and teachers, funded by the three mobile telecom operators, TMN, Vodafone and Optimus, in the context of the commitments made when awarded third generation mobile licenses.

²⁰ For this comparison purpose we will only consider PT's business developed in Portugal (Wireline and Mobile), despite PT also having operations abroad, namely in Portuguese speaking-countries.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

Telecommunications at Sonaecom

Telecommunications is *Sonaecom*'s core business, contributing with 97.4% to the consolidated EBITDA²¹, these results coming mainly from the mobile division (which represents 98% of telecom).

Starting its operations in 1998, Optimus became the third mobile operator in Portugal to be awarded a mobile GSM²² license. After a merger between Optimus (mobile) and Novis (wireline) in 2007, Sonaecom adopted the brand Optimus for both the mobile and wireline telecommunications businesses of the company.

Concerning mobile communications, Optimus covers the residential, SME, corporate and wholesale segments, offering voice, data, mobile TV and mobile broadband (through the brand *Kanguru*). In the mobile broadband market and according to ANACOM, Optimus positions second in terms of market share (27.5% in 4Q2010), after TMN (46.7%) and before Vodafone (21.9%).

As for the wholesale business, it comprises the delivery of voice and data to national and international operators which will resell them to their own end customers. According to ANACOM, Optimus has a leading position in this business.

With a market share of about 20%, Optimus is positioned as the third mobile service company in Portugal, serving 3.6 million customers.²³ And it is this position in the market that potentiates the network effect²⁴ from which Optimus suffers in the voice service. With two larger competitors (*TMN* with 7.4 million customers at the end of 2010 and *Vodafone* having more than 6 million) serving about 80% of the market, it is therefore difficult for *Sonaecom* to get more customers and increase considerably its market share. On the other hand, the data service which has been growing at *Sonaecom*, does not suffer from the network effect, since data services (related to the access to internet) are not bound to any network company; reason why *Optimus* should continue betting on this service.

As a result of the network effect, this operator has been for the past few years a net payer of these MTR, given that the other operators have to terminate more calls from *Optimus* than the opposite. Therefore the regulation towards reducing the mobile termination rates is quite positive to *Optimus*, impacting favorably on direct servicing costs. Also revenue side is affected by these cuts, however in a smaller proportion.

²¹ 2010 Company data

²² GSM: 'Global System for Mobile communications', which is the second generation digital mobile cellular technology

²³ Source: Company data and analyst estimates

²⁴ Network effect is the situation in which a service gets more valuable as more people use it, thus encouraging ever-increasing numbers of adopters

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

decrease in MTR continues...

But in order to better understand the controversy behind the MTR, let us go back to June 2008, when ICP-ANACOM decided to impose a decrease on mobile termination rates on voice calls in Portugal. While ultimately aiming at benefiting the consumers, a glide path was adopted instead of a one-time decrease in rates in order to enable the operators to adapt to these changes. From 15 July 2008 until 1 October 2009 Optimus benefited from asymmetric termination rates, i.e. the rate it had to pay to its competitors was lower than the one it received (see table 1). This situation is justified by an attempt of the regulator to correct the unbalances in the market derived from the large differences between on-net and off-net prices which hurt the traffic and the payments of the smallest operator - Optimus. However, from then onwards, the regulatory authorities changed this situation by introducing a new rule concerning asymmetric MTR - it started being only applicable to operators having entered the market up to 4 years before. Given that Sonaecom entered the market in 1998, it had no transitory asymmetry right anymore. This new rule was created to promote a fairly competitive and non-discriminative market. On 21 May 2010 ICP-ANACOM decided on a new glide path for termination fees, given the maintenance of the unbalances in traffic and in on-net and off-net price differences, which impact negatively the smallest operator. Also, customers benefit from this decision - ANACOM estimates that customers will save approximately 54 million euros during the 6-quarter-period of application of this decision.

Another glide path is already predicted in the Portugal's 2011 memo agreement with the *troika*, situation which accompanies the previously communicated idea of ANACOM to change the costing model of telecommunications by the third quarter of 2011.

Concerning the financial historical performance of the mobile division of Optimus, operating revenues have no defined trend, apart from the last 3 years in which a steady decline was observed. As for the components of revenues, while customer revenues maintain a rising trend driven by the increasing number of customers, operator revenues go in the opposite direction as a result of the cut in roaming-in tariffs and lower termination rates. On the cost side, higher efficiency has been obtained through cost-cutting.

After the announcement of a partnership on December 2009, Sonaecom signed on December 17, 2010 an agreement with its competitor Vodafone for sharing the exploration of the new fiber network NGN (Next Generation Network),²⁵ in the cities

²⁵ NGN-Next Generation Network, is a packet-based network that transports information and services (data, voice, gaming services and streamed multimedia) by encapsulating these into packets and transmitting them through the Internet. NGNs are built around the Internet Protocol, therefore the term "all-IP" is sometimes used to describe this network.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

of Lisbon and Porto. Under this agreement, the FTTH²⁶ network will double its current market reach, and 2011 is the year in which both companies started launching commercial offers within this framework. The two partners share not only the exploration, but also joined efforts with the costs of construction, management, maintenance and operation of the fiber network. This investment in the fiber network is a step towards the introduction of the fourth mobile generation (LTE – Long Term Evolution) in Portugal.

Now focusing on the Wireline division of Sonaecom, it provides voice, data and television services to residential and corporate customers. The fixed services were previously brought by the incumbent operator PT lines. However, nowadays Optimus is no longer activating ADSL services (fixed voice, internet and TV) to its new residential customers, installing now only fiber services, which should be brought by the NGN lines shared with Vodafone. In the case of corporate customers, the activation of ADSL services still is maintained for now.

Optimus also offers pay-tv services. However its position on the market is still quite residual (1.2%), far distanced from the market leader ZON, which serves 59.2% of the market.²⁷

As for the performance of the segment, this unit is considerably less profitable than the mobile one. However, contrary to the mobile segment, Wireline Operator revenues have had a rising trend for the past few years (exception made for 2009, when they decreased 10%). Also the average revenue per access in the wireline business of Sonaecom has been decreasing. But contrary to the mobile unit, it does not result from regulatory impositions; instead it is a consequence of fierce competition between operators, which entice customers through low prices.

Optimus faces strong competition in the fixed market, mainly from the solidly installed incumbent operator PT, which registered a 57.6% market share in direct accesses in 2009, against 16.6% for Optimus. The differences in dimension in the market are therefore large. Capital Expenditure-CAPEX is one of the indicators that largely differs between the two operators. In terms of growth strategy, tendency is divergent, with Optimus having no clear growth tendency but currently reducing its investments in the Wireline unit and privileging mainly maintenance (CAPEX from 2008 to 2009 was reduced in 46%), while PT has been steadily increasing its investment in fixed

²⁶ FTTH: 'Fiber-to-the-Home', is a form of communication delivery through fiber optic which connects the central office to the subscriber's living or working space. Fiber is often considered to be 'future proof' because the speed of the broadband connection is usually restrained not by the fiber itself, but by the terminal equipment, thus allowing some speed improvements by equipment upgrades before having to upgrade the fiber itself.

²⁷ Source: company data; concerning the 3Q2010.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

assets for the past few years (exception made for 2010; with CAPEX growth of 22%, 38% and 40% for the years of 2007, 2008 and 2009 respectively). The higher investment in CAPEX of PT can be explained by the fact that the company owns its network infrastructures, which require large expenditures in maintenance and improvements. Also, the EBITDA margin for the two operators varies widely, PT having a 44%, 36% and 37% margin on 2008, 2009 and 2010 respectively, and Sonaecom's wireline division obtaining only 5%, 2% and 1.5% of EBITDA margin. The reason for this disparity is the low profitability of this division at Optimus, given that its operating costs amount to an average of 96% of the operating revenues, compared to around 55% for PT.

ZON Multimedia is another peer to consider given that around 90% of its operating revenues come from the 'Pay TV, Broadband and Voice' unit, which activity is quite similar from that of Sonaecom's wireline. Contrary to Sonaecom, ZON has seen its operating revenues increasing 6% for the past three years. Also, ZON presents a larger EBITDA margin (31.5%, 32.4% and 34.7% for the years of 2008, 2009 and 2010), consequence of the higher profitability (operating costs are 69%, 68% and 65% of operating revenues for the years considered before).

Valuation

In terms of specific WACC assumptions the beta we consider for the whole telecom division is the beta for Sonaecom (beta=1.2), given the large relative weight (close to 100%) of this division in the company.

Concerning our forecasts for this sector, we assume Optimus' performance will accompany the Portuguese economy, a tendency verified in previous years. This means a negative growth for both 2011 and 2012, starting the recovery by 2013. Moreover, given that the reasons the regulators took to impose the decline in termination rates should be solved by the end of this year and the operators should not allow for more decreases in their operator revenues, we expect the termination rates to stop declining at the end of the present year, consequently stopping the negative impact on revenues. So for the year of 2011 we predict the revenues from interconnection to decrease 15%, to remain stable in 2012 and to start growing 1% from 2013 onwards accompanying the growth of the company. Concerning the service revenues, we assume that the market share of Sonaecom will be maintained and that the number of customers will increase at the rate of growth of the MTS market (which we assume will be 6% a year for being the last rate of growth verified - for 2009. We predict ARPU to continue decreasing throughout the years, a result

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

coming mainly from the promotion campaigns developed in a fierce competition market environment.

As for equipment sales, the market is already quite saturated in the mobile segment but still not in the wireline. And therefore we predict a small annual growth of 1%.

In terms of CAPEX, this unit is very demanding, not only in terms of the regular annual costs with GSM and 3G licensing awarded by the government, but also concerning the efforts of keeping the pace of technological evolution through considerable investments in renewing the existing network or creating new ones. At the moment Sonaecom is waiting ANACOM to perform a frequency spectrum auction by September this year. The regulator aims this way at awarding licenses of frequency (450/ 800/ 900/ 1800 MHz, and 2.1/ 2.6 GHz) to telecommunications operators in Portugal. Depending on the results of the auction, Sonaecom's CAPEX for that period may have to increase considerably and a peak in CAPEX would show in 2011's results. We assume that the CAPEX to be spent in this auction will amount to 110 million euros. Concerning the fixed segment and given its less favorable perspectives, we assume that the investment in this segment for the coming years will only be of maintenance, corresponding to a small amount of CAPEX (15 million euro per year) for this segment. On the other hand, in accordance with the growth expectations for the mobile sector, we assume the telecoms CAPEX to grow at a steady rate of 2% annually and perpetually.

PEX led by Spectrum auction

Despite the fixed-to-mobile transfer, the low profitability of the wireline business and the quite unfavorable perspectives for this sector, the hypothesis of divesting the wireline division is not on the table for us. The reason comes mainly from the advantages Optimus has for being an integrated communications operator. That is, by converging its multiple communications offers under one brand, cross-selling of products becomes possible, as well as competing side by side with the remaining national competitors.

Information systems

The Sector and comparables

One of the recent challenges to this sector is the provision of data and software via a computer network, known as cloud computing. This system enables clients to process tasks remotely from any computer with internet access, without the need to process and store it in their own computers. Besides the advantage of supporting all

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

types of applications and software services, Cloud computing systems reduce the costs to users and allows companies to be much more independent from IT service providers such as Sonaecom’s Mainroad.

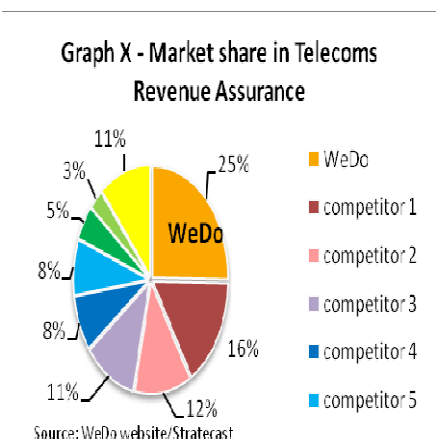
Some of the challenges faced in Cloud Computing (which are presently under a public consultation launched by the European Commission to obtain input on the needs, barriers and opportunities of the use of cloud computing, ending on August 31, 2011)²⁸ are: data protection and accountability, especially in cross borders situations; standardization and interoperability solutions; adoption of cloud computing solutions, especially for SMEs (Small and Medium Enterprises); ways to promote research and innovation in this field.

Sonaecom’s Information systems

The SSI division was created in 2002 and it is the second most important for Sonaecom in terms of results – the SSI unit generated 4.38% of total Sonaecom’s EBITDA in 2010.²⁹ This business is quite profitable and has considerable growth expectations for the future, with some companies having already established a solid position in its respective markets (it is the case of WeDo for instance). Moreover all companies are internationalized, some more than other, and now they are targeting entering the Angolan market through a joint investment this year.

Now let us see in detail the description of each one of the four companies that compose this unit.

WeDo Technologies dedicates to business assurance solutions, i.e. it provides software to monitor and control business operations and internal control systems in order to optimize the results and efficiency of the business. WeDo targets as clients telecommunications companies, also providing services to the Financial, Utilities, Transportation, Health, and Retail industries. Additionally the company provides business assurance consulting services through its consulting division *Praesidium* (acquired in 2007). WeDo is a very strong player in the international market, currently being the world leader in revenue assurance (i.e. the monitoring and control of revenues to guarantee they are not lost in the process) for the telecoms industry – graph X. In order to maintaining its leadership, WeDo continues to expand its business portfolio, to perform acquisitions and to open offices in



²⁸ Source: Public Consultation on Cloud Computing by the European Commission

²⁹ Note that the sum of the contributions of Telecom and SSI divisions is larger than 100%, which is due to and compensated by the negative contribution of the Online & Media unit.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

different places worldwide. In fact, it has already provided its services to more than 125 companies (100 of which are telecom operators which requested consulting services) in 78 countries worldwide. In terms of performance, WeDo has been growing for the past few years, presenting an EBITDA growth of 21% in 2010. By 2015 WeDo expects to double its size in terms of revenues and orders as of the reported at the end of 2010, through both acquisitions and organic growth. Despite the considerable growth rate for the SSI, we consider these forecasts very ambitious and quite difficult to obtain in such a short period of time, therefore we introduce in our estimates a more conservative perspective of WeDo's performance for the coming 5 years.

Bizdirect dedicates to the commercialisation of multi-brand Information Technology solutions in partnership with the most recognized market's manufacturers (such as Apple, IBM, Intel or Toshiba). Additionally it offers services of management of software licensing contracts to its clients. *Bizdirect* is starting to expand its business internationally (namely to Spain), currently having 5% of its revenues coming from abroad³⁰. It is currently targeting to enter the Angolan market.

Mainroad offers Information Technology services in terms of managed services, security, business continuity and also consulting services on best practices in IT (also called ITIL-Information Technology Infrastructure Library). It has offices in Lisbon, Porto and Madrid (since 2009). Mainroad's performance has been acknowledged by some international institutions, which have recognized the company as the second best European Disaster Recovery Provider in 2008, and also the second best European Data Centers Risk Mitigator in 2009.

Saphety is a company providing trusted services in business-to-business transactions (such as electronic invoice and secure messaging), also implementing paperless offices or business process automation. After ten years of existence and having more than 2500 clients in 14 countries around the world, Saphety is planning to enter this year the Swedish and Angolan markets, a step according to its international expansion ambition.

According to the most recent and complete data obtained for the four companies (for 2009), we found that Bizdirect generates 61% of SSI revenues, WeDo comes second with 29%, then Mainroad with 8% and finally Saphety yielding 2% of total revenues. Concerning the performance of the unit, although some threats to profitability have arisen in the past few years, and a loss in equipment sales occurred due to a deceleration of the program e-initiatives, Sonaecom achieved a positive financial

³⁰ Source: www.bizdirect.pt

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

performance, benefiting from efficiency gains in the cost structure while decreasing operational costs.

Valuation

In terms of CAPEX this division is not very demanding given the nature of their operations – the key in this segment is human capital. As a result, we expect the CAPEX to grow about 2% a year.

Information systems at *Sonaecom* is an area in some way undervalued - it is not much explored or talked about in the national market, despite its large potential and several achievements. We consider that the Information systems unit at *Sonaecom* has even more growth potential than the telecom business. Firstly because by expanding internationally it is being exposed to more different risks indeed, but which all together can offset one another, whereas *Optimus* is fully exposed to the Portuguese market. Also, the SSI have no borders to their market and therefore their growth prospects can only depend on further international expansion. On the contrary, as a company having its activities in one country only, *Optimus* has as a limit on its growth, which is the population of the country.

Multimedia

The Sector and Comparables

The written press sector is a very competitive one, this competition arising either from other players within the industry itself or from substitute products such as television channels specialized in news, or the online platforms which provide a constant feed of information or even the free daily newspapers (which are gaining market share over the paid newspapers). Consequence of this is that the written press sector is in contraction, both in revenues and in readership, a tendency verified not only in Portugal but also throughout the world – recent studies³¹ reveal that after the United Kingdom, the United States saw for the first time in history the advertisers' investment on the internet surpass that on the press (the advertisement revenues of newspapers dropped 6.4% in 2010, while these revenues for the online sector increased by 13.9% in 2010).

³¹ Source: The State of the News Media in 2011-An Annual Report on American Journalism, by the Pew Research Center's Project for Excellence in Journalism

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

In a society with rapidly changing consumption habits, the general opinion of the top executives and managers in the Media industry ³² is that the press' main revenues which come from advertising (and should maintain its relevance in revenues at least for the next 5 years), may now have to come from alternative sources. These alternative sources include pay models for online access to articles, photos & videos through the web sites, smartphones and iPad apps.

This is a consequence of a change in the advertisers' attention, now focused on the internet and telecommunications, rather than the press, radio and cinema, as these have become less attractive in terms of population covered and consequently in terms of revenues generated for the advertisers.

Another advantage of this shift to online advertising is that campaigns can be measured more effectively, with the results pinpointed down with detailed demographics thus allowing a more effective campaign segmentation, along with input from clients and users through the ever growing tendency of delivery of information with instant feedback through social Media channels.

Diário de Notícias (DN) is the most similar company we can find for comparison with Público, Firstly because it is exposed to the same market (Portugal) as Público. Also, as a daily generalist newspaper it targets the same readers as Público. Both are suffering a negative trend on circulation, which impacts on revenue – graph X.

Público and online platforms

The Online & Media division, from which make part Público, publico.pt and miao.pt., is the least significant division for Sonaecom's results, representing - 1% of Sonaecom's EBITDA of 2010.

Público is a daily generalist newspaper ranking third among the daily newspapers in terms of circulation. Additionally it has a 4% market share of audience and 10.5% for advertising. However these shares have consistently been decreasing throughout the years, situation which compromises the revenue-generating side of the newspaper.

Publico.pt is the online platform of the Público newspaper, created in 1995. It presents a vehicle for the newspaper to accompany the changing times and compensate the turning of readers to technological vehicles for getting information. In order to generate revenues in the online platforms, some contents have restricted access tied to a monthly subscription of the service. And given the low profitability of

³² Source: "Barómetro Media e Comunicação: tendências para 2011" by OberCom, a private company associated with the main companies and associations of the communications sector.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

the business, this paying logic has more and more chances of being enlarged to more contents within the website. According to Marktest, in October 2010 Público.pt was the fourth website the most visited among the websites of newspapers, magazines and online information, with 498,000 users. The most visited were two sports newspapers (*A Bola*-629,000 users and *Record*-615,000), followed by *Jornal de Notícias*-552,000 users.

Also part of the Multimedia division is Miau.pt, an online auction platform.

Valuation

For the WACC calculation, the beta we used for the SSI was computed using the betas on comparable listed companies³³. The issue in this comparison is that the so-called comparables are much larger companies, making part of an aggregate of different media vehicles (whereas Público's activity is limited to the press business), and some having its activities in the Spanish market. As a result of these situations, the business risks can differ significantly. However, as this was the closer available information, we took them as comparables.

The Multimedia division of Sonaecom has been persistently showing negative results during the historical years considered, having negative FCFE (Free Cash Flows to Equity) of -8, -4, -12, -5, -4, -2, and -8 million euros for the 2004-2010 historical period analyzed. This means this unit has been hurting shareholders' wealth and therefore its elimination should be strongly considered, a scenario we pose. The EBITDA margin for this division has been negative since 2005, which means that the costs exceed the revenues. And this is not a sustainable situation for an investment.

Our forecasts for the next ten years follow thus the negative prospects of the newspaper industry. This translates into decreasing revenues and consequent

Given this possibility, we performed a valuation on Sonaecom in the scenario of continuity of this unit and additionally also considering its sale.

Scenario – sale of Multimedia business

Following our analysis we pose the scenario of Sonaecom selling its Multimedia division. This hypothesis gains relevance in the actual context and given the prospects for this the newspaper industry, which is in recession. The unprofitability of the business is clearly reflected in the negative cash

³³ We took as comparables: Impresa, Media Capital, Cofina, Prisa – *Promotora de Informaciones*, and Vocento.

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

flows consistently generated by this unit, and which destroy value in Sonaecom's business.

Given the impossibility of calculating a positive enterprise value for a loss-generating business so that we could assess how much the business is worth to reach to a fair value sale price, the selling price would then have to be based on the potentialities of the online segment, which is still a revenue-generating business.

In order to reach to a value of public.pt we had to make some assumptions. Firstly we considered that the number of users of publico.pt is 490,000 per month, having in mind the number of users from last October 2010 reported by Marktest (and adjusting down, as it was an exceptionally good month in terms of accesses). We then took 5% of those users as the ones possibly paying for a subscription of the printed version of the newspaper, online. According to the prices on the website, this subscription amounts to €50 annually. Therefore, the revenues generated this way would amount to €725,000. And if we considered selling by two years of revenues, the sale price would be €1,450,000. From our calculations the sale of the Multimedia division of Sonaecom would provide a higher enterprise value for the company. Therefore, there would be a positive impact on the price target, which would increase from €1.89 to €2.04.

Financial Statements

Income Statement	2009	2010	2011 E	2012 E	2013 E	2014 E
Operating Revenues	956	929	915	926	961	1011
Sales & services	1002	971	959	971	1003	1049
<i>Eliminations</i>	-52	-50	-50	-50	-50	-50
Other op revenues	36	33	31	30	33	37
<i>Eliminations</i>	-29	-25	-25	-25	-25	-25
Operating Costs	761	718	713	722	752	795
Provisions and impairment losses **	19	16	16	16	18	18
EBITDA	177	195	186	188	191	197

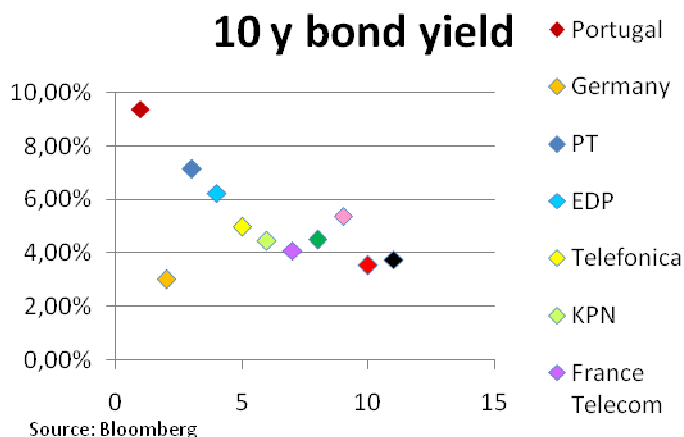
THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

Depreciation and amortisation **	153	131	144	140	144	138
<i>Eliminations</i>	0	0	0	0	0	0
EBIT	24	64	43	47	47	59
Financial Revenues/Costs	0	2	-1	-1	-1	-1
Gains and losses on associated companies *	0	0	0	0	0	0
Other financial expenses *	16	87	21	21	21	21
Other financial income *	17	89	20	20	20	20
EBIT after Financial results	24	66	42	46	46	58
Interest expenses	13	8	1	1	2	2
EBT	11	58	41	45	44	56
Income Taxes*	5	17	12	13	13	14
Net Profit for shareholders						
Minority Interests						
Net Profit -total	6	41	29	32	32	42

BALANCE SHEET	2009	2010	2011	2012	2013	2014
Assets	1922	1858	1946	1932	1973	1962
Tangible & Intangible & Goodwill	1383	1391	1495	1482	1466	1455
<i>Eliminations</i>	0	0	0	0	0	0
Inventories	14	17	12	11	11	12
Financial investments & other non-current assets	123	109	110	110	110	110
Other current assets of the segment	402	339	329	329	385	385
Liabilities	987	882	818	811	833	828
Equity & Minorities	935	975	1128	1121	1139	1134

Appendix 1

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)



Appendix 2

ANACOM rules for termination fees (values in euros)	Optimus	TMN & Vodafone	Asymmetry
Previously	0,110	0,11	0%
15-May-08	0,096	0,08	20%
1-Oct-08	0,090	0,075	20%
1-Jan-09	0,084	0,07	20%
1-Apr-09	0,078	0,065	20%
1-Jul-09	0,072	0,065	11%
1-Oct-09	0,065	0,065	0%
24-May-10	0,6	0,6	0%
24-Aug-10	0,55	0,55	0%
24-Nov-10	0,5	0,5	0%
24-Feb-11	0,45	0,45	0%
24-May-11	0,4	0,4	0%
24-Aug-11	0,35	0,35	0%

THIS DOCUMENT IS NOT AN INVESTMENT RECOMMENDATION AND SHALL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

Disclosures and Disclaimer

Research Recommendations

Buy	Expected total return (including dividends) of more than 15% over a 12-month period.
Hold	Expected total return (including dividends) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including dividends) over a 12-month period.

This report was prepared by a Masters of Finance student, following the Equity Research – Field Lab Work Project, exclusively for academic purposes. Thus, the author, which is a Masters in Finance student, is the sole responsible for the information and estimates contained herein and for the opinions expressed, which reflect exclusively his/her own personal judgement. All opinions and estimates are subject to change without notice. NOVA SBE or its faculty accepts no responsibility whatsoever for the content of this report nor for any consequences of its use.

The information contained herein has been compiled by students from public sources believed to be reliable, but NOVA SBE or the students make no representation that it is accurate or complete, and accept no liability whatsoever for any direct or indirect loss resulting from the use of this report or its content.

The author hereby certifies that the views expressed in this report accurately reflect his/her personal opinion about the subject company and its securities. He/she has not received or been promised any direct or indirect compensation for expressing the opinions or recommendation included in this report.

The author of this report may have a position, or otherwise be interested, in transactions in securities which are directly or indirectly the subject of this report.

NOVA SBE may have received compensation from the subject company during the last 12 months related to its fund raising program. Nevertheless, no compensation eventually received by NOVA SBE is in any way related to or dependent on the opinions expressed in this report.

The NOVA School of Business and Economics does not deal for or otherwise offers any investment or intermediation services to market counterparties, private or intermediate customers.

This report is not an investment recommendation as defined by Article 12.º-A of the Código do Mercado de Valores Mobiliários. The students of NOVA School of Business and Economics are not registered with Comissão do Mercado de Valores Mobiliários as financial analysts, financial intermediaries or entities or persons offering any services of financial intermediation, to which Regulamento 3.º/2010 of CMVM would be applicable.

This report may not be reproduced, distributed or published without the explicit previous consent of its author, unless when used by NOVA SBE for academic purposes only. At any time, NOVA SBE may decide to suspend this report reproduction or distribution without further notice.