Financial and Economic Crisis and Telecomms

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Questions

- How telecoms have been affected by current economic crisis ?
- Are they doing any worse than peers from other sectors ?
- If yes or not - why ?
- What it could mean for the future ?

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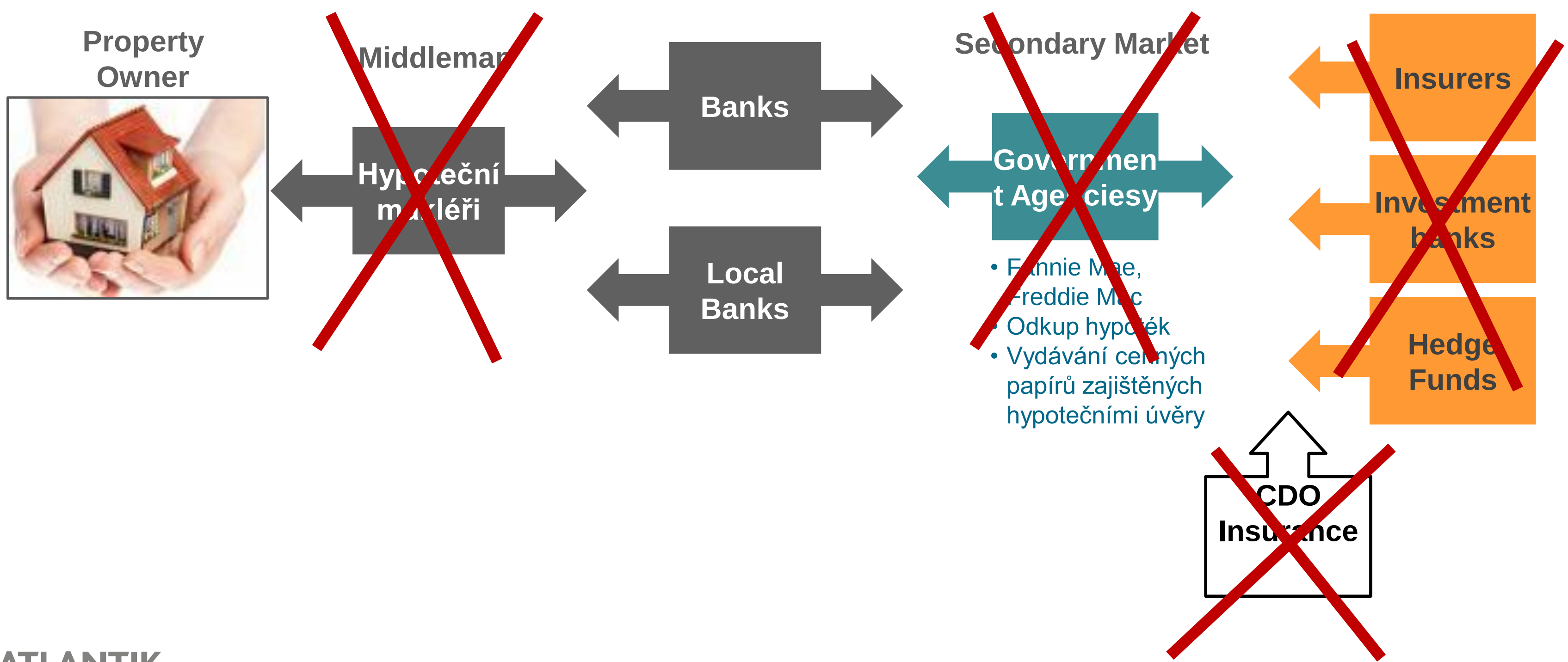
Crisis: How Did It Begin ?

2007: Mortgage Crisis

- Very low transparency of the process – low responsibility – moral hazard
- The system in the CR is different = no toxic assets in bank's balance sheets



Consequences

2008
Financial Crisis

2009
Economic Crisis

Financial Crisis		
INFLATION	**Banks** **$$$$**	**GOVERN.**
		Výdaje, zadlužení
Gov.expenditures are growing		

Economic Crisis		
IFLATION	**GDP** **$$$$**	**GOVERN.**
	Spotřeba domácností	Výdaje, zadlužení
Gov.expenditures are growing and thus inflation		

QUESTION:

Does the danger of inflation mean the real threat to the world economy ?

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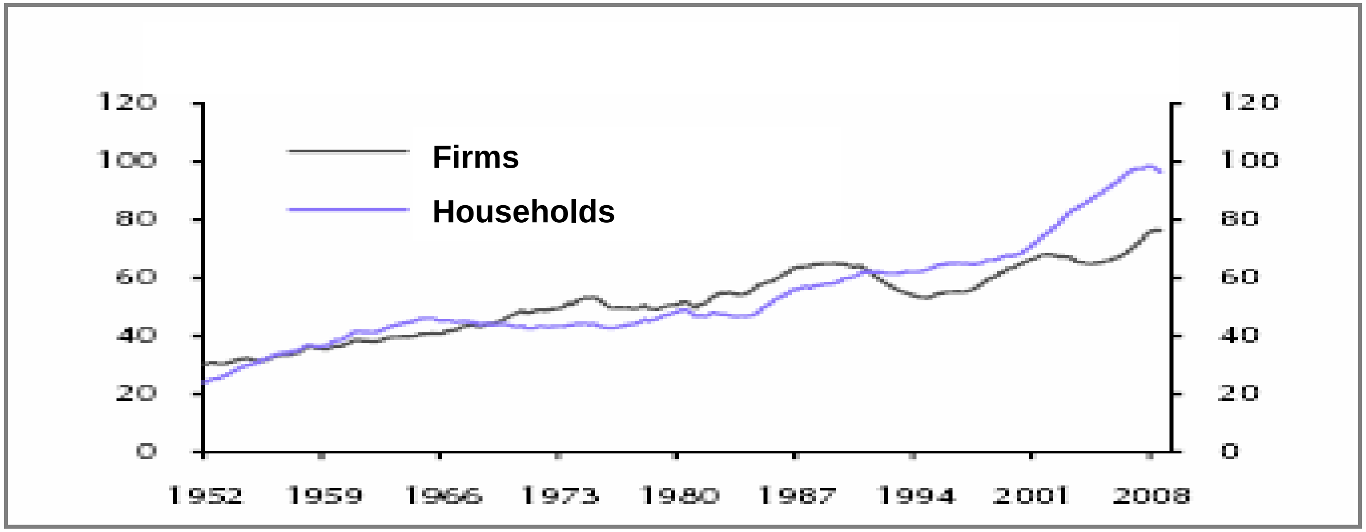
Household and Firms Liability as % of GDP



How is GDP in USA created:

GDP =	Household Consumption	+ Gov. Expenditures	+ Investments	+ Net Export
in USA	71%	17%	15%	-3%

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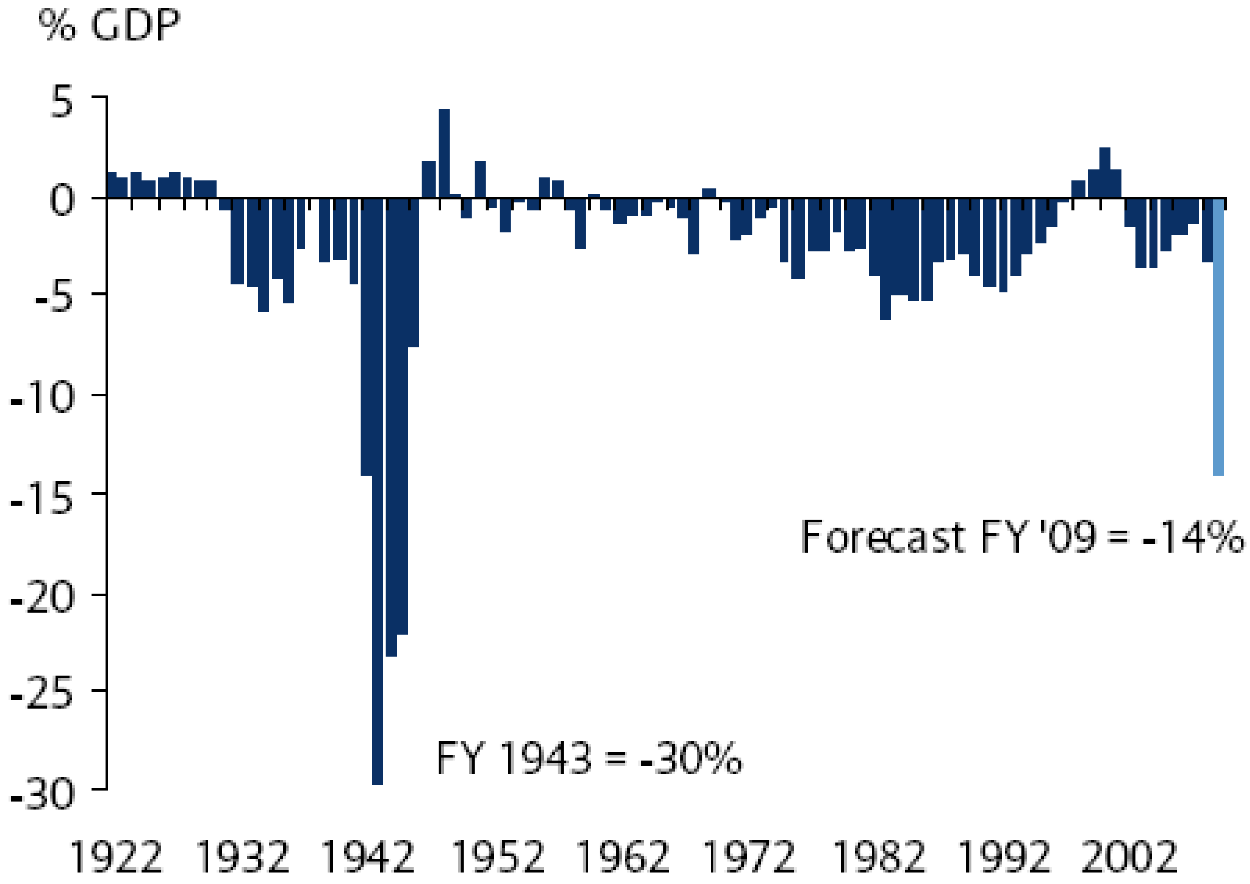
...and thus budget balance goes deeper ...

Figure 2: Federal budget balance



Source: : CBO, Haver Analytics, Barclays Capital

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GDP 2009-2011 Forecasted

Country/Region	CAGR 00-07	2008	e2009	e2010	e2011
USA	2.5%	1.1%	-2.1%	2.0%	3.3%
EU	2.1%	0.8%	-2.0%	0.7%	1.8%
Asia (ex.Japan)	8.3%*	6.7%	5.1%	6.8%	-
CR	4.4%	3.2%	-1.1%	1.8%	3.4%

Source: ATLANTIK, Bloomberg

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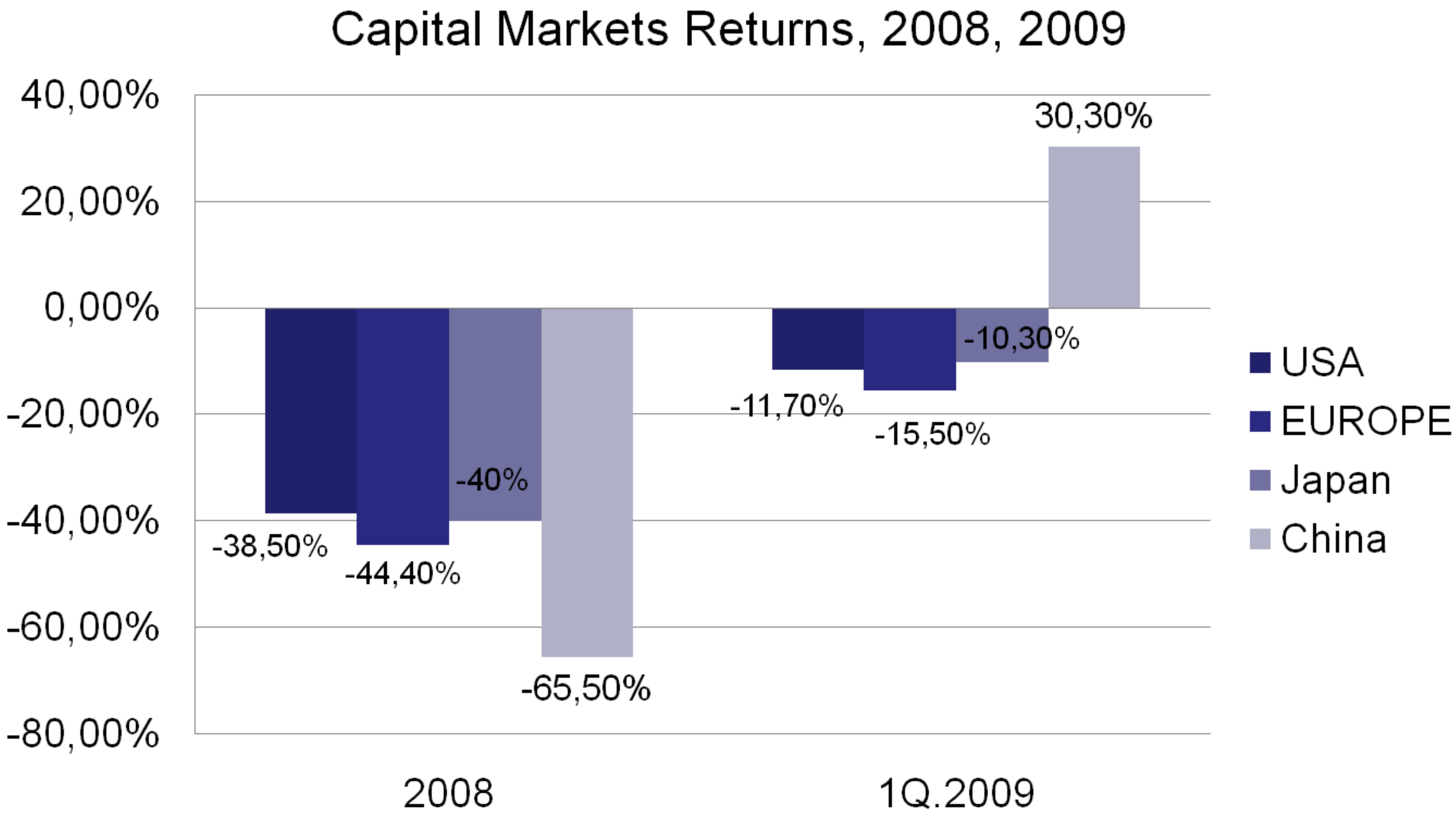
Mortgage Crises Triggered a Decline in Capital Markets



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Are Stocks Already Cheap ?

The Valuation: P/E Ratio Concept

P/E = Price / Earnings per Share

P_0/E_1 = Expected Price per Share / Expected Earnings per Share

Markets	As of 31.1Dec. 2007	February 09
CR (PX)	16,7	6,8
Europe (EuroSoxx 50)	12,5	8,7
USA (S&P 500)	16,5	13,6

US P/E Long Term Average: 15-16 !

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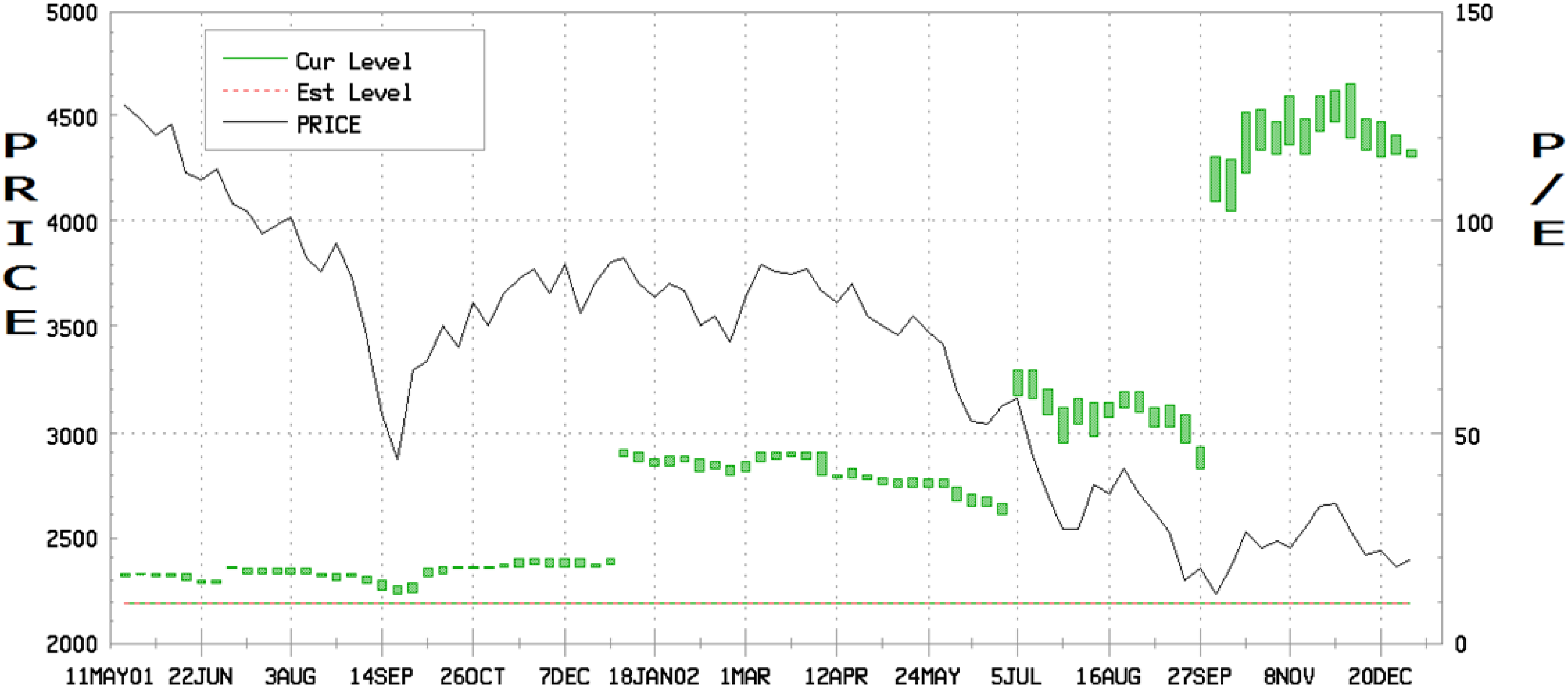
However , Low PE Could Be Also Tricky ...

„Dear“ stocks do not mean always a „good investment“

P / E = price/earnings



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Telecomunication Sector : Past 50 years in USA

- TELCO sector has seen its share of the index falling from 7,5% to 3,5%
- Internet and technology bubble infected TELCOs dramitacally
- Sector did not add any new firms between 1953-1999, however new firms such as WorldCom, Global Crossing, Quest Communication entered index with grate fanfare , only to collapse afterward
- Prof.J.Siegel: „TELCO industry, which laid the foundation for the productivity revolution is a prime example how firms operating at the forefront of Schumpeter’s creative destruction proces can themelves be destroyed by their own inventivnes

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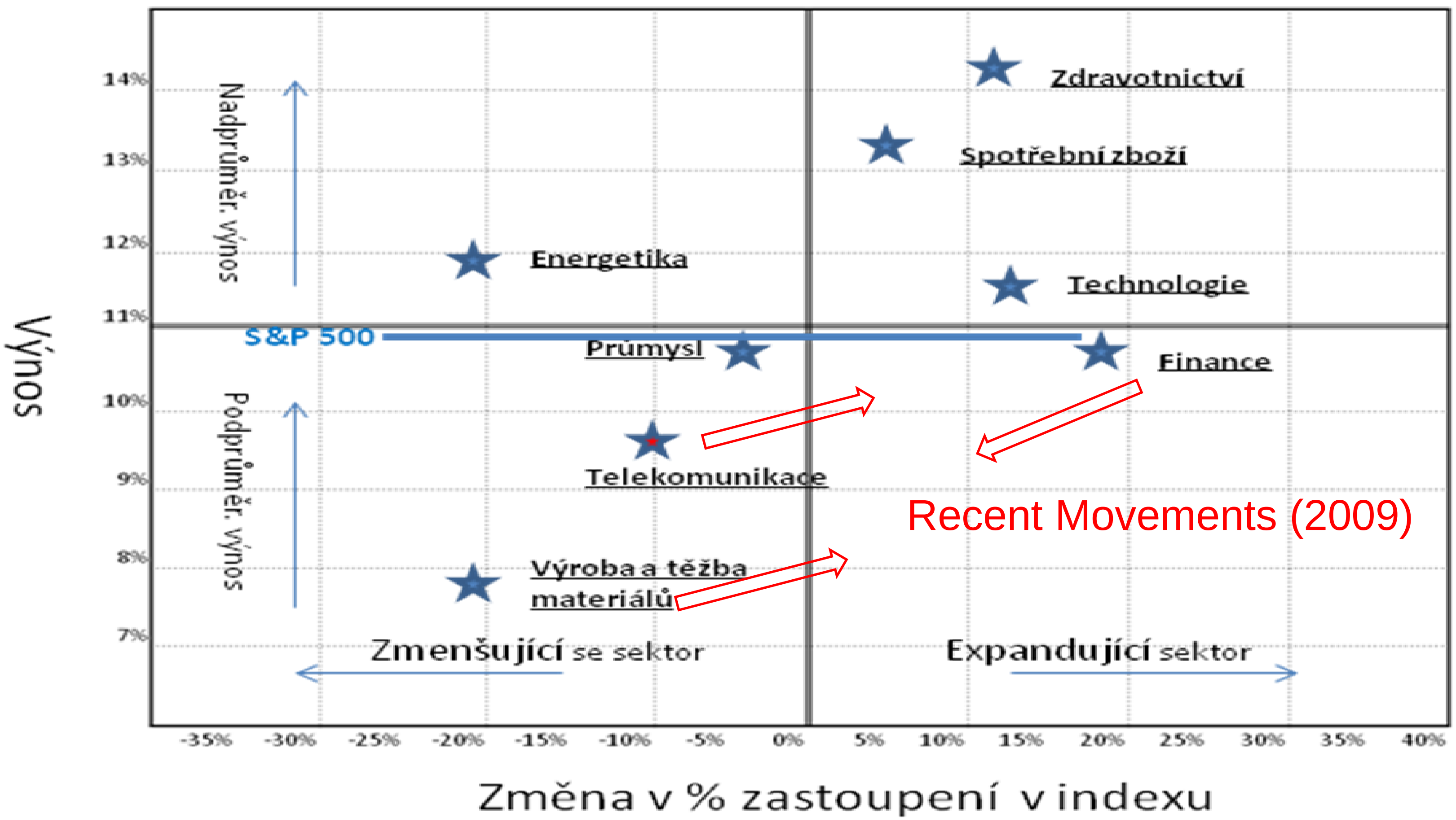
Relation Between Change in Global Index and Return For each Sector between 1953-2003



Source: J.Siegel: The Future for Investors

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Market Share

Sector	Market Share March 4, 2009	Market Share 2003	Market Share 1957
Financials ⬇	11,27%	20,64%	0,77%
Infromation Technology ⇧	18,22%	17,74%	3,03%
Health Care ⇧	14,23%	13,31%	1,17%
Consumer Discretionary ⬇	9,06%	11,30%	14,58%
Consumer Staples ⇧	12,55%	10,98%	5,75%
Industrials ⬇	9,9%	10,90%	12,03%
Energy ⇧	13,25%	5,80%	21,57%
TELECOMMUNICATIONS	4,06%	3,43%	7,45%
Materials ⇧	3,25%	3,04%	26,10%
Utilities ⇧	4,20%	2,84%	7,56%
S&P500	100%	100%	100%

Source: J.Siegel: The Future for Investors, State Street

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Telecomms Outperform Market

Sector	Annualizied Return 1957-2003	Return 2004-2008	Return 2008
Financials	10,58%	-19,1%	-56,9%
Infromation Technology	11,39%	-3,0%	-43,7%
Health Care	14,19%	-4,9%	-24,5%
Consumer Discretionary	11,09%	-7,3%	-34,7%
Consumer Staples	13,36%	-1,0%	-17,7%
Industrials	10,22%	-6,6%	-41,5%
Energy	11,22%	+8,8%	-35,9%
TELECOMMUNICATIONS	9,63%	-0,9%	-33,6%
Materials	8,18%	-1,4%	-47,0%
Utilities	9,52%	+2,3	-31,5%
S&P500	10,85%	-5,3%	-35,8%

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Source: J.Siegel: The Future for Investors

Telecoms are less correlated with US,EU

Correlations 1999-2009

Country	USA	EU	Russia	China	India	ČR	Telecom
Index	**S&P500**	**SX5E**	**RTSI**	**SHCO**	**SENS**	**PX50**	**MSGL**
USA	1,00	0,81	0,40	-0,02	0,40	0,49	0,72
EU	0,81	1,00	0,41	-0,01	0,43	0,53	0,72
Russia	0,40	0,41	1,00	0,07	0,34	0,48	0,36
China	-0,02	-0,01	0,07	1,00	0,11	0,11	0,05
India	0,40	0,43	0,34	0,11	1,00	0,45	0,40
ČR	0,49	0,53	0,48	0,11	0,45	1,00	0,45
Telecoms	0,72	0,72	0,36	0,05	0,40	0,45	1,00

Source: ATLANTIK, Bloomberg

Correlation Coefficient – statistical measure of the degree to which the move of two variables are related. Range is <-1;1>

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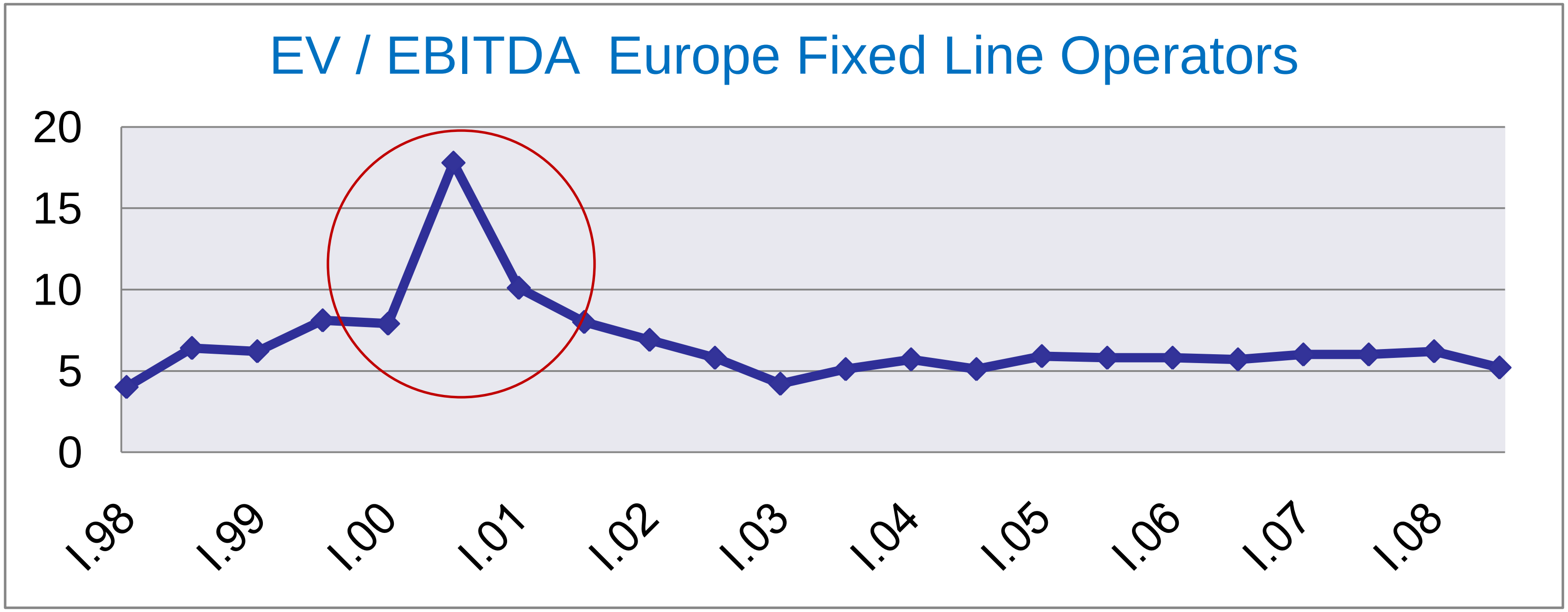
The Enterprise Multiple

EV/EBITDA

(**Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization** or **Enterprise Multiple**) is a valuation multiple that is often used in parallel with, or as an alternative to, the P/E ratio. Typically, this ratio is applied when valuing cash-based businesses. The ratio used to determine the value of a company.



Source: Sal Openheim

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Some Examples of EV/EBITDA

	EV / EBITDA Estimated 2009
European Telecoms	4,8
Alternative Carriers	4,3
Cable Operators	6,5
CEE Telecoms	4,0
Telefonica O2	4,7
Magyar Telecom	3,6
ČEZ	5,9
UNIPETROL	2,0
Philip Morris ČR	8,3

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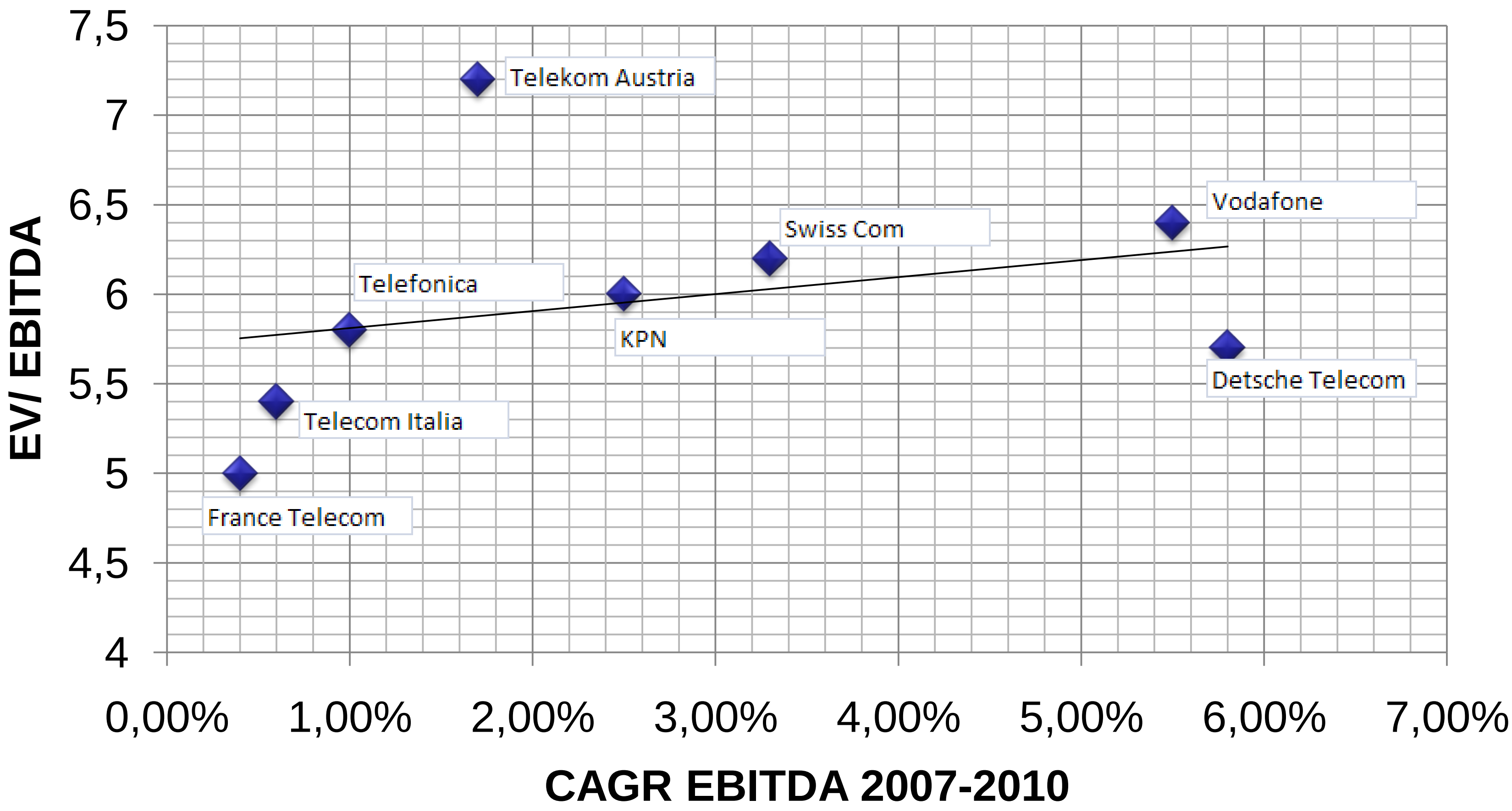
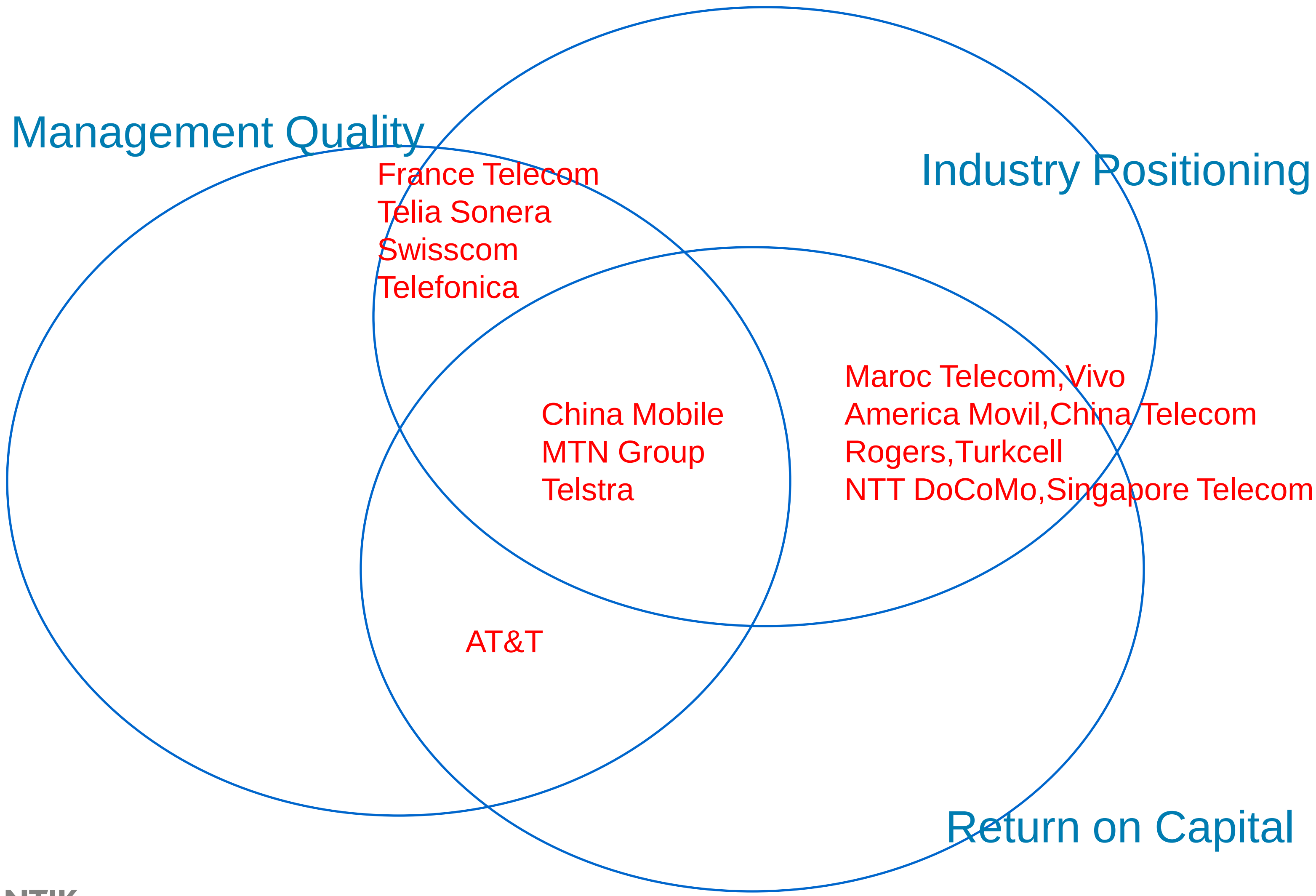
Source: ATLANTIK, Bloomberg

Some Telecoms Are Cheaper



Source: Sal Oppenheim

Goldman Sachs Approach



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Questions and Conclusion:

- How telecoms have been affected by current economic crisis ?
  Yes, but resonably less then other industries. This is different from the past recessions (1982,2000).
- Are they doing any worse than peers from other sectors ?
  No, telecoms are less volatile, they lost less value, are in better financial shape.
- If yes or not - why ?
  - Telecoms are utility – like srvices
  - Revenues preasures are unlikely to be greter then GDP decline
  - Operators can cut capex to preserve CFL and dividends and thus to mitigate liquidity risk.
  - In long-run telecoms will be growing
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Questions and Conclusion (cont.)

- What it could mean for the future ?

  - Strong financial backgrounds and enough cash will move them to the next technological development and to accelerate it .

  - Despite the recession, mobile idustry will enjoy a promising transformation (a pararel from computing: it is as if PC, the graphical interface, high-speed internet, the open- source software had all taken of at the same time)

  - Financial stability could enable telecoms to enter number of M&A deals, and to enter to other business areas
  - In some markets telecoms could enter financial service sector and they may to start to compete with banks

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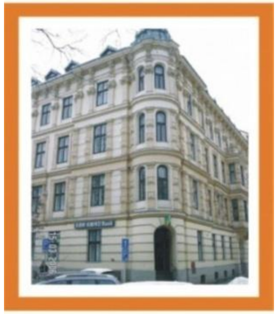

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