

Telecommunication Services, Sweden

TeliaSonera

Leaving Eurasia is no fast track to fortune

- We assess the valuation consequences of an exit from Eurasia
- Not enough financial upside to offset uncertainty and execution risk
- Valuation support at SEK 50, but more upside in other names

Creating a new holding company for Eurasian assets

TeliaSonera's Board and management are serious in their efforts to rectify past mistakes and run the business on sustainable principles. However, the markets in Eurasia are marred by corruption and problematic business partners. We look at a scenario where TeliaSonera's listed and unlisted Eurasian assets are placed in a separate, stock-listed holding company that is distributed to TeliaSonera's current shareholders.

De-risked "Core TeliaSonera" worth SEK 37 per share

A TeliaSonera free of Eurasian assets would include businesses in Scandinavia, the Baltic countries and Spain. We estimate that growth would be similar to today's TeliaSonera, i.e., flat with a possibility of growth within a few years. We would expect the new "Core TeliaSonera" to have SEK 83bn in revenues, EBITDA at SEK 23bn and net-debt-to-EBITDA at 2.2x. After the ongoing fibre capex push in 2015e-16e, DPS in 2018e could be SEK 1.85. Applying a 5% dividend yield implies a market cap of SEK 140-150bn and a share value of SEK 35-37.

High uncertainty, modest upside

TeliaSonera's listed stakes in Megafon, Turkcell and Kcell are worth SEK 14 per share. Valuation of the unlisted Eurasian assets is less clear, but the businesses in Azerbaijan and Nepal point to a value of SEK 2-4 per share. Though we see valuation support at SEK 50, and reiterate our ACCUMULATE recommendation, we struggle to find an attractive equity case even in a break-up scenario. We prefer Tele2 and lower our target price for TeliaSonera to SEK 52 (54).

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SEKm	2013	2014	2015e	2016e	2017e
Sales	101,700	100,890	105,841	105,037	104,914
Sales growth (%)	-3.0	-0.80	4.9	-0.76	-0.12
EBITDA adj	35,584	35,223	35,335	34,946	34,987
margin (%)	35.0	34.9	33.4	33.3	33.3
EBT	21,368	20,107	22,526	23,279	23,550
EPS reported (SEK)	3.46	3.35	3.80	3.86	3.93
EPS adj (SEK)	4.44	4.18	3.93	3.89	3.95
Y-o-y growth (%)	3	-6	-6	-1	2
EPS adj revisions (%)	-	-	0	-1	-1
P/E adj (x)	12.1	12.1	12.6	12.8	12.6
P/BV (x)	2.14	1.96	1.87	1.81	1.76
ROE adj (%)	17.6	16.5	15.0	14.4	14.2
EV/EBITDA (x)	7.4	7.2	7.2	7.3	7.3
EV/sales (x)	2.6	2.5	2.4	2.4	2.4
FCFE adj yield (%)	6.4	5.4	4.2	5.3	5.4
Tot DPS (SEK)	3.00	3.00	3.00	3.10	3.20
Tot Div yield (%)	5.6	6.0	6.0	6.2	6.4
Net debt/equity (%)	49.4	51.0	51.9	50.5	49.6

Source: Handelsbanken Capital Markets

Target price change

S R **A** B
Sell Reduce **ACCUMULATE** Buy

Company Update	Jun 10, 2015
Share price (SEK):	49.63
Mkt cap (EURm):	22,963
Mkt cap (SEKm):	214,902
No of shares (m):	4,330
Est. buybacks next 12m (% of MC):	n.m
Free float (%):	49
Avg daily volume (000):	10,796
Avg daily value (EURm):	57
Bloomberg:	TLSN SS
Reuters:	TLSN.ST
Web address:	Link to company website
IR web address:	Link to IR website
Next event:	Jul 17, 2015: H1 report

12m target return

Target price, inc. div. (SEK):	52.0
Expected total return (%):	4.8
Expected total dividend yield (%):	6.0
DCF Value (SEK):	52.0

Balance sheet 2014

Net debt (SEKm):	59,320
Net debt/equity (%):	51.0
ROE (%):	13.2
ROIC (%):	11.7

Main owners	Votes (%)	Capital (%)
Swedish State	37	37
Capital	3	3

Absolute and relative performance



%	-1m	-3m	-12m
Absolute:	-5	-5	0
Absolute EUR:	-6	-7	-3
Relative DJStoxx:	-1	-4	-10
52w range (SEK):	55.7 / 45.8		

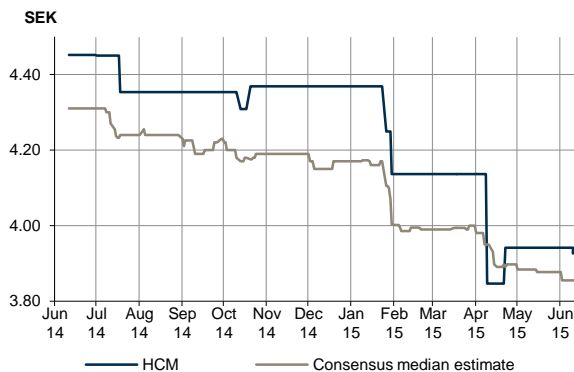
Source: FactSet

What has changed

SEKm	HCM Q2 15e	chg (%)	HCM 2015e	chg (%)	HCM 2016e	chg (%)
Sales	26,527	0	105,841	0	105,037	-1
EBITDA adj	8,835	0	35,335	-1	34,946	-1
margin (%)	33.3	0	33.4	0	33.3	0
EBT	5,741	0	22,526	-1	23,279	-1
Net income	4,074	0	16,452	0	16,734	-1
EPS	0.94	0	3.80	0	3.86	-1
EPS adj	0.96	0	3.93	0	3.89	-1

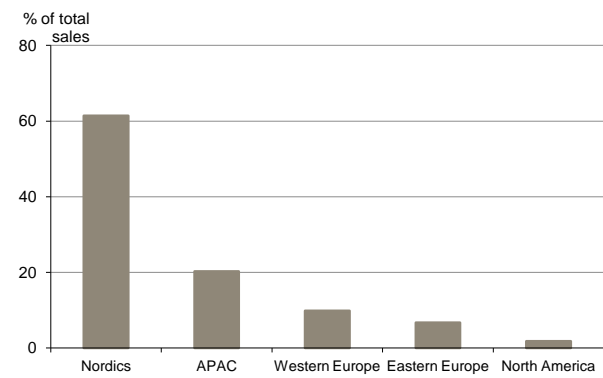
Source: Handelsbanken Capital Markets

Adjusted EPS estimate revisions, 2015



Source: Handelsbanken Capital Markets and FactSet

Geographical revenue split (2014)



Source: Handelsbanken Capital Markets

Ownership structure

08 April 2015	Votes (%)	Capital (%)
Swedish State	37.3	37.3
Capital	3.2	3.2
Finnish State	3.2	3.2
AMF	1.9	1.9
BNY Mellon	1.3	1.3
Number of A-shares		0
Number of B-shares		4,330,084,781
Total		4,330,084,781
Free float		49%

Source: Handelsbanken Capital Markets

HCM vs. consensus

SEKm	Cons Q2 15e	diff (%)	Cons 2015e	diff (%)	Cons 2016e	diff (%)
Sales	-	n.m	106,686	-1	107,848	-3
EBITDA adj	-	n.m	36,261	-3	36,902	-5
margin (%)	-	-	34.0	-1	34.2	-1
EBT	-	n.m	23,644	-5	24,627	-5
Net income	-	n.m	18,719	-12	19,428	-14
EPS	-	n.m	4.01	-5	4.12	-6

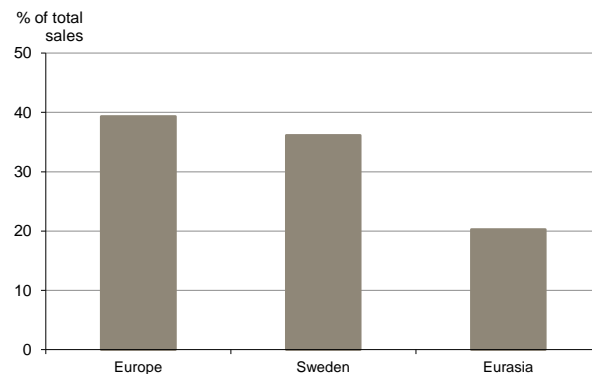
Source: Handelsbanken Capital Markets and SME Direkt

Adjusted EPS estimate revisions, 2016



Source: Handelsbanken Capital Markets and FactSet

Divisional split (2014)



Source: Handelsbanken Capital Markets

Investment case summary

Valuation at premium to European peers

TeliaSonera is trading at a premium to peers, partly explained by the historically better mobile market in Sweden.

Price model shifts from voice to data

The transition from voice to data is working out well in consumer segments, but puts downward pressure on corporate ARPU.

Top-line growth remains a challenge

Growth is slowing in TeliaSonera's Eurasian footprint and fixed telephony is a drag on the top line. This makes overall growth a challenge despite good trends in mobile.

Source: Handelsbanken Capital Markets

Investment case

We look at the valuation consequences of a scenario where TeliaSonera’s Eurasian assets are placed in a separate, stock-listed holding company. “Core TeliaSonera” would have assets in Scandinavia, the Baltic countries and Spain, and could pay sustainable dividends of SEK 1.85 per share after the current capex push in 2015e-16e. Applying a 5% dividend yield implies a fair value of SEK 37 per share. The Eurasian assets would be worth SEK 16-18 per share, of which stock-listed holdings in Megafon, Turkcell and Kcell account for SEK 14. As such, we see valuation support at today’s share price, but are unenthusiastic about the potential given uncertainty and execution risk.

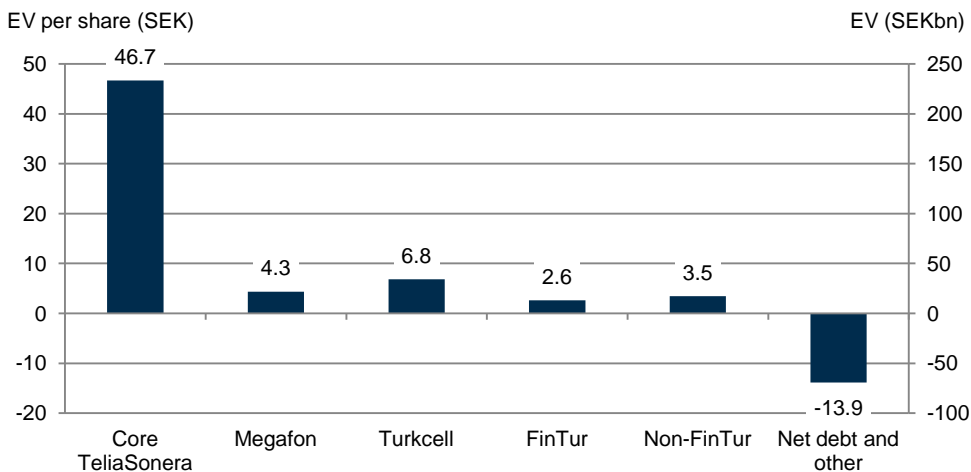
Four key pieces to the puzzle

TeliaSonera’s Eurasian exposure consists of four parts:

- The 25% stake in Russia’s Megafon;
- The 38% economic ownership in Turkcell;
- The consolidated “FinTur assets” in Kazakhstan, Azerbaijan, Georgia and Moldova, co-owned with Turkcell; and,
- The consolidated “non-FinTur assets” in Nepal, Tajikistan and Uzbekistan.

The FinTur assets are co-owned with Turkcell through FinTur Holdings B.V. The non-FinTur assets were added in later transactions during the late 2000s and are not co-owned with Turkcell. The chart below shows our base-case value breakdown in our sum-of-the-parts valuation:

Figure 1: Base-case sum-of-the-parts valuation



Source: Handelsbanken Capital Markets.
 Note: Full sum-of-the-parts valuation in Appendix B on page 17.

The Eurasian exposure consists of four parts

Our base-case SOTP values the Eurasian assets at SEK 50.1 per share

Megafon, Turkcell and Kcell are locally listed

Megafon and Turkcell are easily valued, as their shares are publicly traded. Kcell is also listed in Kazakhstan and accounts for SEK 1.8 of the SEK 2.6 that we have calculated for FinTur. To avoid double counting, we have not included Turkcell’s share of FinTur in the SEK 2.6 per share value for FinTur.

The sum-of-the-parts valuation that is shown in Figure 1 totals SEK 50.1 (see page 17). We think it is worth pointing out the cautious valuation of Kcell, where the listed market cap implies EV/EBITDA of just 3.6x. Moreover, Ucell in Uzbekistan is part of the consolidated “non-FinTur” assets, but are valued at zero in our SOTP given that TeliaSonera is unable to withdraw dividends.

The consolidated 'FinTur assets' are tied up with Turkcell

Since Turkcell's Turkish and Russian owners remain locked in court battles, the FinTur assets would be difficult to divest. For this reason, we treat the FinTur and non-FinTur assets separately; a more fulsome discussion of the ownership situation is included in Appendix A on pages 9-16.

Both the FinTur and non-FinTur assets are fully consolidated in TeliaSonera's accounts. Their full revenues and EBITDA are recognised in TeliaSonera, but minority shares are removed from net income to calculate EPS. The shares in Megafon and Turkcell are booked as associated income: TeliaSonera's percentage share of their net income is booked in one line and included in TeliaSonera's EBIT.

A closer look at "Core TeliaSonera"

TeliaSonera could distribute its Eurasian assets to shareholders

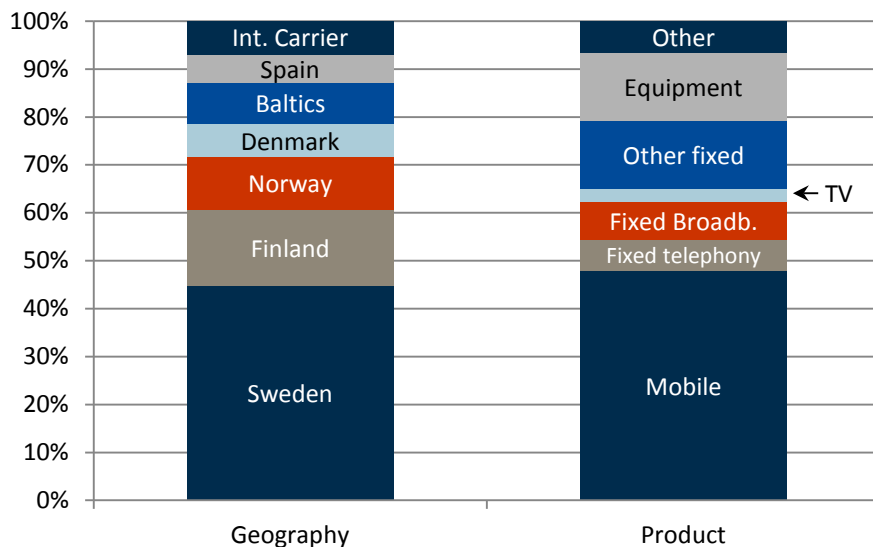
Withdrawing from Eurasia is complex due to the intricate ownership structures and multiple minority owners. A way to get around this could be to spin off the Eurasian assets as a separate entity and distribute it to shareholders. The end result would be two listed companies, a "Core TeliaSonera" and a new holding company with shares in Megafon, Turkcell and the now-consolidated businesses in Eurasia.

The idea here is to create a "bad bank" for the Eurasian telecom assets. The Government of Sweden could sell its shares in the new company thereby exiting Eurasia, but keeping its 37.3% ownership in "Core TeliaSonera" intact.

Figure 2 illustrates how the market exposure and product offering of "Core TeliaSonera" would look after spinning off the Eurasian assets:

Figure 2: Revenue breakdown in "Core TeliaSonera"

The Nordics would make up three quarters of revenues in "Core TeliaSonera"



Source: Handelsbanken Capital Markets

Earnings trends in "Core TeliaSonera" would be similar to today's TeliaSonera

"Core TeliaSonera" would have 2015e revenues of SEK 83bn compared to today's SEK 106bn. The revenue and earnings trends would be remarkably similar to today: flattish revenues with a possible return to growth in a few years, and opportunities to grow earnings through cost cuts. The consolidated Eurasian businesses used to be TeliaSonera's growth engine, but their recent slowdown means that removing them has less impact.

Table 1: “Core TeliaSonera” income statement

	Core TeliaSonera (SEKm)	2012	2013	2014	2015e	2016e	2017e	2018e
	Net sales	85,321	81,165	80,432	83,358	83,191	83,305	83,627
	Adj. EBITDA	26,165	24,780	24,364	23,924	24,168	24,559	25,107
We model flattish revenues with a possible return to growth in 2017e-18e	EO	-1,126	-1,218	-912	-648	-120	-120	-120
	EBITDA	25,039	23,562	23,453	23,277	24,048	24,439	24,987
	Depreciation	-17,482	-11,741	-10,276	-10,323	-10,213	-10,217	-10,248
	Associated income	105	96	104	104	94	94	94
	EBIT	7,662	11,917	13,280	13,057	13,929	14,316	14,833
	Net financials	0	0	0	-1,900	-1,900	-1,900	-1,900
	EBT	7,662	11,917	13,280	11,157	12,029	12,416	12,933
	Taxes	0	0	0	-2,874	-3,103	-3,204	-3,338
	Net income	7,662	11,917	13,280	8,283	8,926	9,212	9,595
	to minorities	0	0	0	0	0	0	0
to shareholders	7,662	11,917	13,280	8,283	8,926	9,212	9,595	
	Shares	4,330	4,330	4,330	4,330	4,330	4,330	4,330
	EPS	1.77	2.75	3.07	1.91	2.06	2.13	2.22
	Net debt				56,389	56,938	56,517	56,386
	Net debt/Adj. EBITDA				2.4	2.4	2.3	2.2
	% sales growth		-5%	-1%	4%	0%	0%	0%
	% Adj. EBITDA growth		-5%	-2%	-2%	1%	2%	2%
	% Adj. EBITDA margin		30.5%	30.3%	28.7%	29.1%	29.5%	30.0%
	% depreciation to sales		14%	13%	12%	12%	12%	12%
	% P&L interest				3.4%	3.3%	3.4%	3.4%
	% P&L tax				26%	26%	26%	26%

Source: Handelsbanken Capital Markets

In terms of valuation, our base-case sum-of-the-parts model values the non-Eurasian businesses at SEK 201bn, or SEK 46.4 per share, on a debt free basis. However, our scenario analysis paints a richer picture of the value potential of these businesses on a standalone basis.

TeliaSonera would be much more transparent without significant minority owners or associated income. Net debt at SEK 56bn would put net-debt-to-EBITDA at 2.3x for 2015e. With a forecast interest rate around 3.3%, the cash interest cost would be SEK 1.9bn.

Table 2: “Core TeliaSonera” cash flow

Core TeliaSonera (SEKm)	2012	2013	2014	2015e	2016e	2017e	2018e
Adj. EBITDA	26,165	24,780	24,364	23,924	24,168	24,559	25,107
Chg. in NWC				-352	191	-54	108
Interest paid				-1,900	-1,900	-1,900	-1,900
Tax paid				-2,874	-3,103	-3,204	-3,338
Dividends from associates				50	50	50	50
Dividends to minorities				0	0	0	0
Adjustments				-1,200	-1,200	-1,200	-1,200
Operating Cash Flow				17,648	18,206	18,251	18,827
Capex	-10,400	-10,014	-11,481	-13,201	-12,755	-10,830	-10,696
FCF before M&A				4,447	5,451	7,420	8,131
Acquisitions & Divestments				-4,500	0	0	0
FCFE (FCF to Equity holders)				-53	5,451	7,420	8,131
Dividends to shareholders					-6,000	-7,000	-8,000
Other adj.					0	0	0
Incr. (-) or decr. (+) in net debt	15,765	14,133	12,138	-53	-549	420	131
Net debt				56,389	56,938	56,517	56,386
Net debt/Adj. EBITDA				2.4	2.4	2.3	2.2
Shares	4,330	4,330	4,330	4,330	4,330	4,330	4,330
DPS (in year paid)					1.39	1.62	1.85
% CF interest				3.4%	3.3%	3.4%	3.4%
% CF tax				26%	26%	26%	26%
% capex-to-sales		12%	14%	16%	15%	13%	13%

Source: Handelsbanken Capital Markets

Capex is elevated in 2015e-16e

Flattish net working capital would not strain cash flow, but high capex would. As the cash flow illustration in Table 2 points out, capex is elevated for 2015e-16e. This is due to TeliaSonera’s ongoing “capex to grow” and “capex to save” programmes that were announced at the CMD in autumn 2014.

“Core TeliaSonera” could pay a SEK 1.85 DPS by 2018e...

Today’s TeliaSonera pays a SEK 3.0 dividend, though some of this payout is financed with debt. “Core TeliaSonera” would likely have slightly higher gearing, and adding further debt would probably be avoided. As such, the high capex level leads us to believe that “Core TeliaSonera” would pay dividends of just SEK 1.39 per share in 2016, but that payout could rise in years ahead. In 2018e, when capex normalises, we believe recurring cash flow would allow a SEK 1.85 dividend per share.

...and a 5% dividend yield implies a fair value of SEK 37 per share

Returning to valuation, applying a 5% yield implies a fair value of SEK 37 per share. This is higher than our base-case sum-of-the-parts valuation, if we allocate the same amount of debt, and better captures the cash flow potential ahead.

For the long-term earnings trends, three additional factors are worth mentioning. Firstly, the “capex-to-save” programme targets savings of SEK 2bn per annum from 2017e. This cost cut would have a relatively larger impact on a smaller TeliaSonera, and very little of this improvement is reflected in our forecasts. Secondly, TeliaSonera has long sought to divest Yoigo and exit Spain. Although willing buyers have not materialised, the closing of the Orange-Jazztel deal could enable a new round of negotiations. We believe TeliaSonera’s 76.6% share in Yoigo could fetch SEK 4-5bn, and the near-zero EBITDA contribution means that offloading Yoigo would lift TeliaSonera’s cash flow generation and yield capacity by a further 0.3 p.p. Thirdly, the recent acquisition of Tele2 Norway could lift the margin in Norway beyond current estimates and the pending mobile merger with Telenor in Denmark may bring about market repair and synergies.

With a value of “Core TeliaSonera” indicated at SEK 37 per share, our attention turns to the spin-off assets. This entity would include TeliaSonera’s holdings in Megafon, Turkcell, and the businesses in Eurasia. For lack of better option, we label this holding company “NewCo”.

Stakes in Megafon, Turkcell and Kcell are worth SEK 13 per TeliaSonera share

The stock-listed entities are easily valued. The 25% stake in Megafon is worth SEK 18.9bn, or SEK 4.4 per TeliaSonera share, at today’s USD 14.5 share price. The 38% economic ownership in Turkcell is worth SEK 29.6bn, i.e., SEK 6.8 per TeliaSonera share, at today’s share price of USD 11.3. TeliaSonera’s 54% ownership in Kcell in Kazakhstan is worth SEK 7.8bn, or SEK 1.8 per share, at the current USD 9.0 share price.

Table 3: Stock-listed assets in Eurasia

	Shares (M)	Price USD	Market cap (SEKbn)	TeliaSonera ownership	Market value TLSN stake (SEKbn)	Value per TLSN share
Megafon	620	14.5	75.4	25%	18.9	4.4
Turkcell	880	10.7	77.9	38%	29.6	6.8
Kcell	200	9.0	14.5	54%	7.8	1.8
Total	-	-	-	-	56.3	13.0

Source: Handelsbanken Capital Markets

“Core TeliaSonera” and the three stock-listed Eurasian assets are worth SEK 50 per share...

The TeliaSonera share is now trading at SEK 49.6. We have argued that “Core TeliaSonera” is worth SEK 37 per share, and the three listed assets are together worth SEK 13.0 per share. This already totals SEK 50.0 per share, i.e., SEK 0.4 above the current TeliaSonera share price.

...hence, investors get the remaining Eurasian assets for free

Beyond the listed assets, Eurasia also includes businesses in Azerbaijan, Georgia, Moldova, Nepal, Tajikistan and Uzbekistan. In our base-case sum-of-the parts, we value these assets at SEK 18.5bn, or SEK 4.3 per TeliaSonera share. With “Core TeliaSonera” worth SEK 37 per share and the listed holdings worth SEK 13 per share, this corresponds to a total TeliaSonera share value of SEK 54.3, which offers ~10% upside from today’s price.

Table 4: Revenues, EBITDA and ownership in Eurasia

SEKm	TeliaSonera	EBITDA							
2014	ownership	Net sales	EBITDA	% margin	Capex	% of sales	-capex	% margin	
Kazakhstan	54%	7,248	4,032	55.6%	767	10.6%	3,265	45.0%	
Azerbaijan	30%	3,778	2,042	54.0%	472	12.5%	1,570	41.5%	
Uzbekistan	94%	3,613	1,944	53.8%	-	-	-	-	
Tajikistan	60%	857	364	42.5%	-	-	-	-	
Georgia	59%	874	355	40.6%	-	-	-	-	
Moldova	59%	497	131	26.4%	-	-	-	-	
Nepal	60%	3,593	2,155	60.0%	696	19.4%	1,459	40.6%	
Eliminations	-	-2	-163	-	-	-	-	-	
Total	-	20,458	10,859	53.1%	4,724	23.1%	6,135	30.0%	

Source: Handelsbanken Capital Markets.

Note: Capex for select individual countries is calculated from select disclosure in the 2014 Annual Report.

However, valuing the non-listed Eurasian assets is no easy feat. Each business has its own issues, and the many minority owners are described in detail in Appendix A on page 9. Table 4 above shows key line items for each business.

As the table illustrates, the Eurasia business area contributes consolidated operating free cash flow (OFCF) of SEK 6.1bn (defined as EBITDA-capex). Excluding Kcell in Kazakhstan, which we valued above, the OFCF contribution is SEK 2.9bn. However, we also need to adjust for minorities, which in turn requires a few assumptions on relative capex levels. Based on reasonable such assumptions, we estimate that OFCF excluding minority shares is SEK 2.5bn, or SEK 0.57 per

TeliaSonera share. Deducting Uzbekistan, a country from which TeliaSonera is unable to withdraw cash, the OFCF contribution is SEK 1.6bn or SEK 0.38 per share. Assuming a 20% trim for financing and taxes, we reach SEK 0.30 in potential DPS. If we demand a 15% dividend yield to compensate for the high risk, this implies a fair value of SEK 2 per TeliaSonera share.

Needless to say, SEK 2 is significantly less than the SEK 4.3 per share value that we ascribe to these assets in our base-case sum-of-the-parts. The difference is not due to Uzbekistan, as we value the Ucell asset at zero in our SOTP as well. The difference is Nepal, to which we ascribe a much higher value in our SOTP due to its high growth. Our SOTP value for Nepal alone is SEK 15bn, or SEK 3.3 per share, on the back of a 9x EV/EBITDA multiple.

Table 5: Valuation outcomes

SEK per share	Bear	Base	Bull
TeliaSonera shares	35	36	37
worth SEK 50 to SEK	13	13	13
54, implying a	2	3	4
1-9% upside	50	52	54
Share price today	49.6	49.6	49.6
Upside	1%	5%	9%

Source: Handelsbanken Capital Markets

We already concluded that the non-listed Eurasian assets could be worth anywhere between SEK 2 and SEK 4 per TeliaSonera share. At SEK 2, we are valuing all these assets in line with Kcell's traded valuation of 3.6x EV/EBITDA. With 2015e revenue growth in Nepal of 32%, this appears rather harsh, and the upper valuation seems more appropriate. Moreover, the assets that neighbour Russia could have strategic, geopolitical value to Russian owners. A NewCo with TeliaSonera's Eurasian holdings would essentially be a break-up case and this aspect should not be overlooked.

To conclude, we find that today's TeliaSonera would be worth SEK 50-54 in a breakup scenario. Given that shares are trading below SEK 50, we do not see any downside; instead, we see some upside potential should this scenario transpire.

Other options

We mentioned above that divesting the FinTur assets would be difficult as long as Turkcell remains locked in ownership deadlock. Although TeliaSonera could try to divest Megafon and the non-FinTur assets, doing so would only result in a partial withdrawal from Eurasia. We do not think that TeliaSonera would be perceived as less risky in this scenario; consequently, we do not see the value upside that we see in our "Core TeliaSonera" scenario.

Resolving the Turkcell deadlock could open up other possibilities...

Needless to say, a resolution of the long-running Turkcell dispute would open up new ways to exit both Turkcell and FinTur. Perhaps a side payment from TeliaSonera to one of the other owners could help in this regard; that is what it took to solve the deadlock that used to block dividends from Megafon.

...but a resolution may require a pricey side payment

Lastly, we could also see a scenario where TeliaSonera divests Megafon and the non-FinTur assets and then sells the FinTur assets to Turkcell. TeliaSonera would still have a large minority stake in a deadlocked Turkcell, but the exposure to Eurasia would be at "arm's length" and the problematic businesses would no longer be managed out of Stockholm.

Appendix A: Current exposure to Eurasia

TeliaSonera’s exposure to Eurasia consists of three main parts. The first part includes Megafon and Turkcell: stock-listed assets whose net income is booked as associated income in TeliaSonera’s P&L. The second part contains the FinTur assets in Kazakhstan, Azerbaijan, Georgia and Moldova. These businesses are fully consolidated in TeliaSonera, but are co-owned with Turkcell. The third part includes businesses in Tajikistan, Uzbekistan and Nepal; they are also fully consolidated, and in TeliaSonera’s control, but without Turkcell involvement.

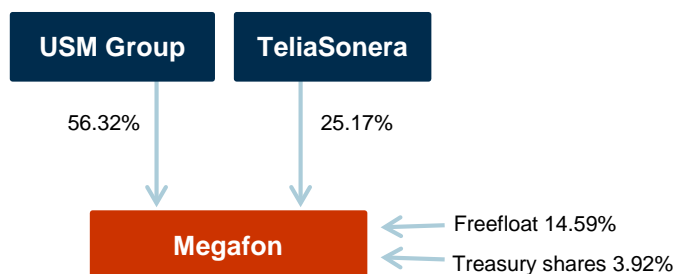
There was never a master plan for Eurasia that resulted in the footprint we see today. On the contrary, TeliaSonera’s many holdings reflect the options and opportunities that have arisen over two decades of regional expansion. Untangling this intricate web of holding companies and minority shareholders is no simple feat and merely surveying the current landscape calls for some effort.

Megafon: SEK 4.3 per TeliaSonera share

A landmark agreement in 2012 saw the resolution of a long ownership dispute in Megafon. Around 15% of shares in the Russian operator were stock-listed in Moscow and London and TeliaSonera’s ownership was reduced from 43.8% to today’s 25% + 1 share. The agreement saw oligarch Alisher Usmanov emerge as the controlling shareholder with 56% of shares, whereas Mikhail Fridman’s Altimo exited altogether. Of all the holdings in Eurasia, we believe this one is the easiest to unwind. Having said that, it is also the least pressing – given that the shares are liquid, Megafon pays dividends, and TeliaSonera’s 25% + 1 share grants it certain minority rights under Russian law.

Figure 3: Megafon ownership structure

TeliaSonera has a 25% direct ownership in Russia’s Megafon



Source: Handelsbanken Capital Markets

Turkcell: SEK 6.8 per TeliaSonera share

The long-running ownership dispute in Turkcell has proved a tough nut to crack with endless twists and turns in an increasingly complex story. Although Turkcell paid dividends this spring for the first time since 2010, Turkish and Russian equity holders are at odds over ultimate control.

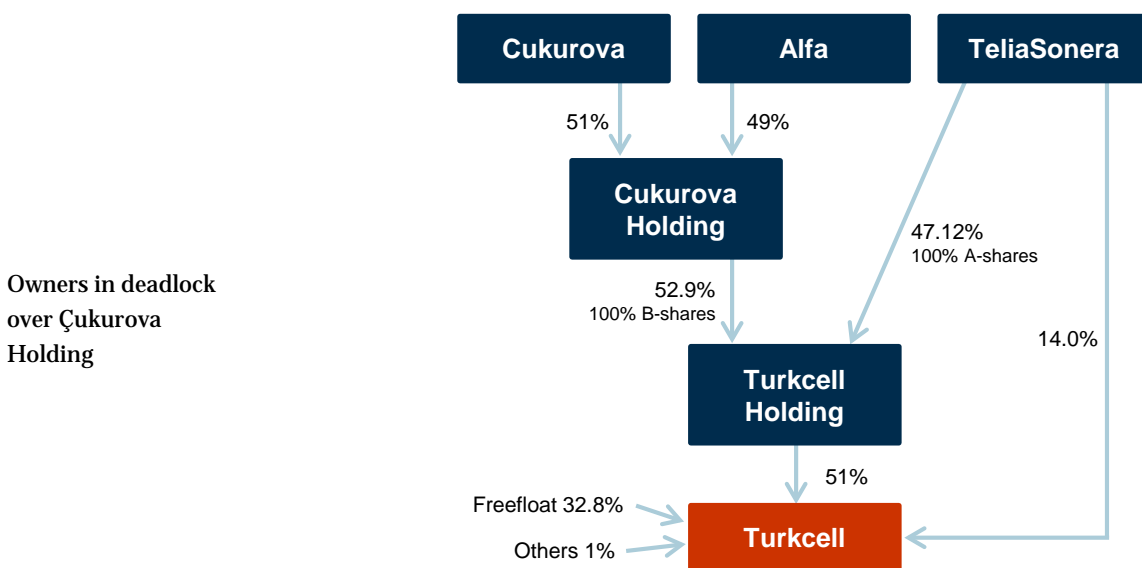
Turkcell’s owners are still battling for control

Sonera’s predecessor Telecom Finland founded Turkcell together with Ericsson and Turkish conglomerate Çukurova back in 1993. Turkcell was The Turkcell Holding. In 2005, Çukurova first pledged to sell its controlling stake in Turkcell Holding to TeliaSonera in a deal that would have given TeliaSonera full control over the business. However, Çukurova failed to deliver on its promise and TeliaSonera sued Çukurova in court. After winning in the International Chamber of Commerce (ICC), TeliaSonera was awarded damages of USD 932m (+interest) from Çukurova as compensation for the failed deal. No money has yet been received, and the prospects ahead look disheartening. Nonetheless, surrendering

the claim could be a means for TeliaSonera to win other benefits in a future resolution of the deadlock.

Rather than selling to TeliaSonera, Çukurova introduced Russia's Altimo as a new partner and added another layer of holding companies. Altimo was the telecoms arm of Alfa Group, the investment company controlled by Russian oligarch Mikhail Fridman. At one point, Altimo held large positions in both Megafon, Vimpelcom and Turkcell. To secure funds, Turkish Çukurova sold 49% of Çukurova Holding to Altimo and used the remaining 51% as collateral for a USD 1.35bn cash loan. A long dispute followed where Altimo tried to seize the collateral on the grounds that Çukurova had defaulted on its loan. The fight over this controlling stake, the 51% in Çukurova Holding, found its way through multiple court rooms before the London Privy Council ruled that Çukurova should be allowed to repurchase the 51% controlling stake for USD 1.6bn.

Figure 4: Turkcell ownership structure today



Owners in deadlock over Çukurova Holding

Ownership	Direct	Indirect	Total
TeliaSonera	14.0%	24%	38.0%
Cukorova	0%	13.7%	13.7%
Altimo	0%	13.1%	13.1%
Freefloat	32.8%	0%	32.8%

Source: Handelsbanken Capital Markets

TeliaSonera has a 38% economic interest in Turkcell, but no control or Board representation

Çukurova is headed by Turkish tycoon Mehmet Karamehmet and in autumn 2014, the group secured financing from the state-owned Ziraat Bank. This is where we are today, though Alfa Group has introduced a new entity, LetterOne, which replaces Altimo as the vehicle that owns its shares in Çukurova Holding. Owners remain in deadlock and the situation is far from satisfactory:

- TeliaSonera has a 38% economic interest, but no control or board representation;
- Çukurova controls the controlling 51% stake in Çukurova holding, but is blocked by shareholder agreements and relies on government funding from Ziraat Bank; and,
- Altimo owns a 49% stake in Çukurova Holding, an illiquid holding company.

Neither Çukurova nor LetterOne have more than 14% economic ownership. Curiously, Altimo-successor LetterOne has enlisted Britain's former trade minister

Mervyn Davies as Deputy Chairman and former Swedish Minister of Foreign Affairs Carl Bildt as an advisor to its Board.

Cukurova and Altimo-successor LetterOne are now engaged in new court battles

The latest events again relate to Çukurova Holding. By arguing that Çukurova has caused "Deadlock" as defined in the shareholder's agreement, LetterOne has triggered certain deadlock resolution procedures in the Çukurova Holding shareholders agreement. These allow LetterOne to make a cash bid for Çukurova's 51% stake, after which Çukurova has 30 days to respond. If Çukurova does not accept the bid, the shareholders agreement stipulates that Çukurova must offer Altimo the same bid price (per share) for Altimo's 49% stake.

The cunning part of LetterOne's bid is the high offer price. At USD 54.9m per holding company share, LetterOne's offered price was almost twice as high as Turkcell's traded market cap would imply. Although a control premium could be warranted, the difference is too high for this to be a full explanation. It seems more plausible that LetterOne has set the offer price solely to trigger a counter bid at the same level. The Government of Turkey is turning increasingly nationalist and Turkcell is one of the country's largest enterprises. Çukurova is dependent on government financing, and selling to Russians would not seem to match government preferences. Rather than accept the bid or offer to buy out LetterOne, Çukurova has opted for another court battle. Was it really Çukurova that breached the agreement, or was it LetterOne that first caused deadlock? With the dispute just started, we fear that courts could take years to process these claims.

Dividends have been paid, but there is no timetable for a full resolution

Turkcell has been stock-listed throughout this period, but conflict between the key shareholders prevented dividend payments for several years. Shareholder agreements in the holding companies allow owners to block progress and 'starve out' their opponents. The owners only agreed to hold an AGM and pay dividends after Turkey's Capital Markets Board threatened to seize control over Turkcell's Board and run the company by government mandate. The dividend payment in spring 2015, when TeliaSonera received SEK 4.5bn, was a welcome move forward but nothing near a full resolution of the ownership deadlock.

Consolidated Eurasian assets: SEK 6.1per TeliaSonera share

The "Eurasia" business area includes businesses in seven countries

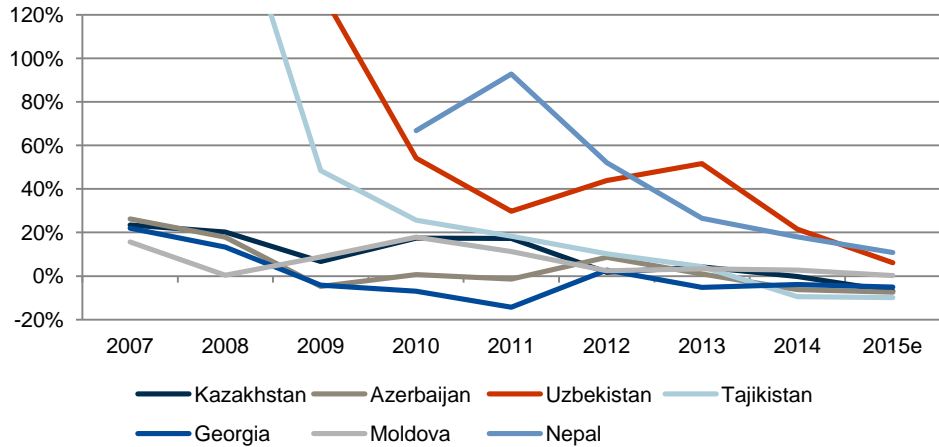
The "Eurasia" business area accounts for 21% of TeliaSonera's group revenues and 32% of group EBITDA. The countries in question are Kazakhstan, Azerbaijan, Georgia, Moldova, Tajikistan, Uzbekistan and Nepal. The lesser weight in our sum-of-the-parts is due to minority owners who have stakes in TeliaSonera's reported revenues and EBITDA. While there are minority owners in all of the Eurasian businesses, TeliaSonera has operational control, and since May 2011, the same purple logo is being used across Eurasia, Sweden and Europe.

Revenues and EBITDA from these countries is fully consolidated

As the chart below shows, the Eurasian assets have seen revenue growth decline in recent years. Subscriber growth has halted, as one country after the other sees SIM-card penetration reach, and exceed, 100%. At the same time, the average revenue per user (ARPU) has continued to fall despite the slowed subscriber growth. In Q1 2015, mobile service revenues in the largest asset, Kcell, declined 10.1% y-o-y in local currency. Azercell, the second-largest asset, declined 0.8%. The businesses still recording high growth are Ucell in Uzbekistan and Ncell in Nepal. Both of these are two player markets that are on the brink of increased competition.

Figure 5: Local currency revenue growth, Eurasia

Growth is not what it used to be
Falling revenues in five out of seven businesses



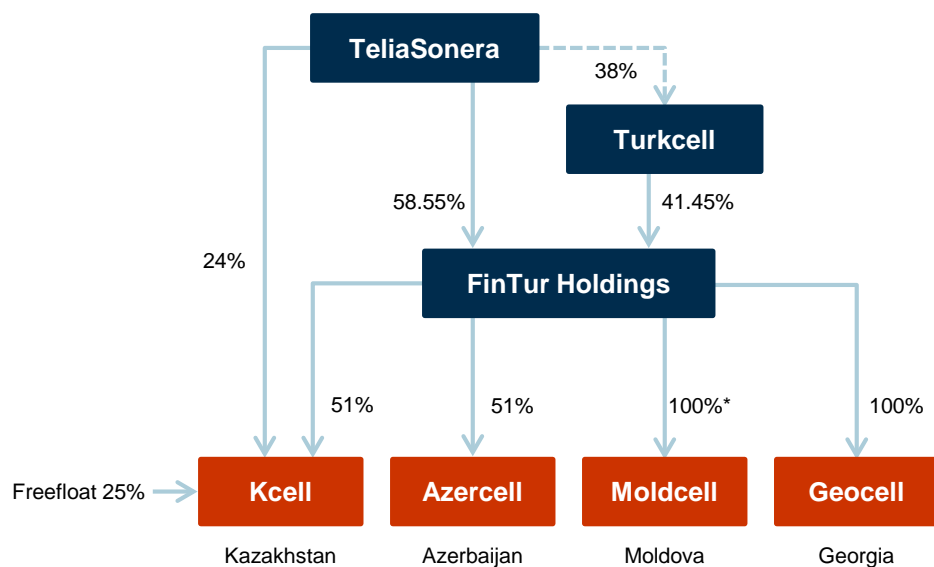
Source: Handelsbanken Capital Markets, TeliaSonera, FactSet (currencies)

Assets owned through FinTur Holdings

TeliaSonera's four original Eurasian assets are owned through FinTur B.V., a Netherlands-based holding company that TeliaSonera owns together with Turkcell. This makes things complicated, since the ownership deadlock in Turkcell hinders transactions related to Kazakhstan, Azerbaijan, Georgia and Moldova.

Figure 6: Consolidated businesses in Eurasia owned through FinTur

Four businesses are co-owned with Turkcell through FinTur Holdings



TeliaSonera ownership	Direct	Indirect	Total
Kcell	53.9%	8.0%	61.9%
Azercell	30.0%	8.1%	38.1%
Moldcell	58.6%	15.8%	74.3%
Geocell	58.6%	15.8%	74.3%

Source: Handelsbanken Capital Markets

Beyond FinTur, TeliaSonera also has a 24% direct ownership in Kcell, Kazakhstan, which is the largest market in the consolidated Eurasian footprint. The direct ownership came about in 2012, when fixed line incumbent Kazakhtelecom sold its 49% ownership to TeliaSonera on the condition that 25% minus one share would be listed locally through an IPO.

Moreover, there are noteworthy minority shareholders in Azercell, TeliaSonera's business in Azerbaijan. Although holding companies give TeliaSonera operational control, its economic stake is just 38.1%.

Problematic minority owners in Azercell...

Azercell is 100%-owned by Azertel, which is 51%-owned by FinTur Holdings. The remaining 49% is owned by two holding companies, Cenay Iletisim (42.2%) and FA Invest (6.5%). Several media reports have argued that these shareholdings are ultimately controlled by Azerbaijani President Ilham Aliyev's two daughters, Arzu and Leyla Aliyev. This is noteworthy, particularly given that the daughters are also shareholders in Azercell's rival Azerbaijani telecom operators. The links to the Aliyev family have not been confirmed, but TeliaSonera CEO Johan Dannelind remarked in his speech at the 2015 AGM that "Our approach is based [since] some time ago on [us having] a minority owner who is close to the ruling power in Azerbaijan". In May 2015, investigate journalists at TT and Uppdrag Granskning alleged that TeliaSonera had facilitated a SEK 6bn transfer of value from the Azerbaijani state to off-shore holding companies traced to President Ilham Aliyev's two daughters. In exchange for this service, it is claimed that TeliaSonera was granted permits and 3G licences. TeliaSonera's current management is cooperating with prosecutors, but says the company has been unable to lay down the exact details of these transactions (which took place in 2004-11).

...and a put option valued at SEK 6.8bn

In its 2014 Annual and Sustainability Report, TeliaSonera notes that a put option granted in 2008 gives the largest minority owner the right to sell its 42% holding to FinTur Holdings in case there is a "deadlock regarding material decisions". The put option is based on fair value at the time of exercise and is to be determined by independent appraisal. In the accounts for 2014, TeliaSonera values this put option to SEK 6,814m, which implies an enterprise value for Azercell of SEK 16.2bn. This is markedly higher than the SEK 7.7bn that we use in our TeliaSonera sum-of-the-parts (the SEK 7.7bn amount refers to 100% of Azercell; TeliaSonera's stake in this, excluding ownership through Turkcell, is SEK 2.3bn).

Consolidated assets without Turkcell involvement

TeliaSonera entered Tajikistan and Uzbekistan in 2007

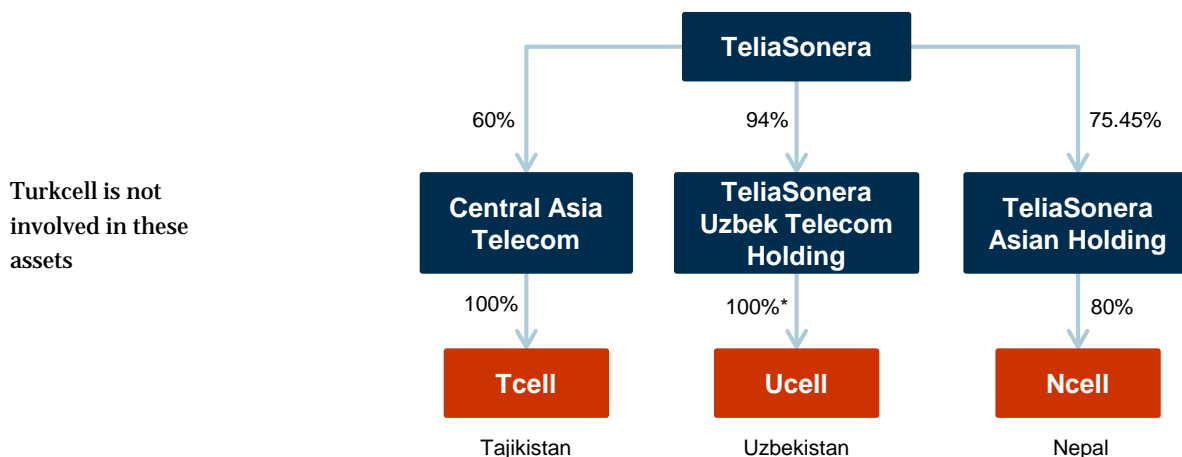
TeliaSonera continued its Eurasian expansion in 2007 through the acquisition of US-based MCT Corp, which owned telecom assets in Tajikistan and Uzbekistan. The acquisition also included a 12.25% stake in Roshan, a leading telecom operator in Afghanistan that is financially insignificant, but still in TeliaSonera's hands.

Nepal was added in 2011

In 2011, TeliaSonera entered Nepal and Cambodia through a deal with Visor Group. The interests in Cambodia were gradually divested and TeliaSonera had left Cambodia by mid-2012.

Tajikistan, Nepal and Uzbekistan seem easier to exit since Turkcell is not involved as an owner. However, there are noteworthy minority shareholders that could make M&A complicated.

Figure 7: Consolidated businesses in Eurasia without Turkcell involvement



TeliaSonera ownership	Direct	Indirect	Total
Tcell	60%	60%	60%
Ucell	94%	94%	94%
Ncell	60.4%	60.4%	60.4%

Source: Handelsbanken Capital Markets

Tcell in Tajikistan is a small operation with just SEK 857m in revenues in 2014. In our sum-of-the-parts breakdown, we value TeliaSonera's 60.4% ownership at SEK 0.8bn or SEK 0.2 per TeliaSonera share. This valuation is based on 2015e EV/EBITDA of 5.5x, which is somewhat higher than the local stock market valuation of Kcell in Kazakhstan. The 40% minority shareholder in this operation is the Aga Khan Fund for Economic Development. From our point of view, divesting Tcell looks relatively straight-forward (though there may be undisclosed shareholders' agreements that complicate matters).

Ncell in Nepal continues to grow rapidly

Ncell in Nepal has been an operational success story since TeliaSonera entered in 2008. Revenues have grown from SEK 1.1bn in 2010 to a projected SEK 4.6bn in 2015e. The company is one of just two national operators, though this could change, as TeliaSonera management has long said it expects a third player to emerge in Nepal.

Put option conditions are vague

TeliaSonera's economic ownership in Ncell has minorities in two levels. The 24.55% minority owner in TeliaSonera Asian Holding is controlled by Visor Group. The 20% minority in Ncell itself is owned by a local businessman, Mr Niraj Govinda Shrestha. All together, TeliaSonera's economic ownership in Ncell is 60.4%.
 An agreement from April 2012 gives TeliaSonera the right to acquire Mr Shrestha's 20% minority stake when Nepalese law allows for this. The value of this put option is not explicit in TeliaSonera's reporting since there appears to be a financial receivable and an "intention to settle on a net basis, or to settle the put option and financial receivable simultaneously". However, at the time of the agreement was reached, on April 5, 2012, TeliaSonera noted that "If and when the agreement regarding the increase of ownership is finally consummated, TeliaSonera will increase its ownership in Ncell by 12.43 percent for today's market value."

High growth warrants premium valuation, but cash repatriation is a concern

Overall, we think Ncell remains an attractive asset and the proximity to India could interest Indian operators. Our SOTP value is a high SEK 14.5bn or SEK 3.3 per TeliaSonera share. Telenor could even be a potential buyer given its presence in the region. However, the fact that Visor group is a minority shareholder might prevent such a deal, as Visor has previously been linked to Altimo when Telenor fought court battles over its holdings in VimpelCom (Russia) and Ukraine (Kyivstar).

We mentioned above that TeliaSonera has noted administrative hurdles in withdrawing dividends from Nepal. However, these issues are much more pressing in Uzbekistan.

TeliaSonera has SEK 2.2bn tied up in Uzbekistan

In its Q1 2015 results comment, TeliaSonera notes that the company is prevented from repatriating cash in Uzbekistan where “the group has a net exposure of approximately SEK 9.2bn, including group companies’ receivables totalling approximately SEK 7.7bn, cash and cash equivalents of approximately SEK 1.5bn and short-term investments of approximately SEK 0.7bn”.

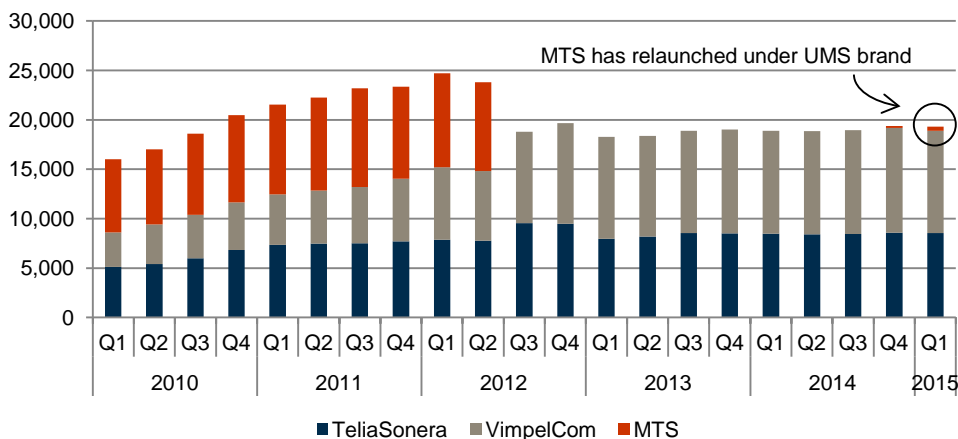
This corresponds to SEK 0.50 per share

The failure to extract cash is all the more noticeable given the high reported cash generation. In 2014, TeliaSonera booked EBITDA of SEK 1,944m from Uzbekistan: this was an increase of 16% vs. 2013 and corresponded to a 54% EBITDA margin. Although capex is not disclosed, we believe run-rate capex is not higher than 30% of sales.

The strong earnings growth is due to another oddity. Back in 2012, authorities in Uzbekistan abruptly withdrew the licence from market-leader MTS. The dramatic event caused a rapid influx of subscribers into TeliaSonera and VimpelCom’s networks, and Uzbekistan has since been an oligopoly.

Figure 8: Mobile subscribers in Uzbekistan

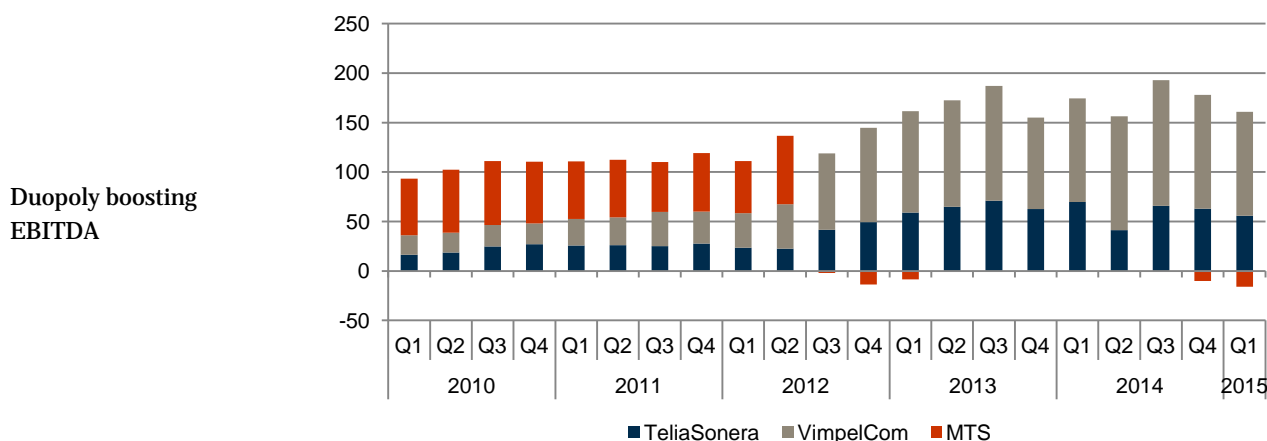
Growth has been strong after MTS had its licence withdrawn



Source: Handelsbanken Capital Markets, company reports

MTS re-emerged in Q4 2014 under a new brand name, UMS. The new venture is in collaboration with the government and uses the base stations left idle since 2012. Although we do not know how fast UMS will gain market share, we have cautious estimates for H2 2015 and 2016. While the cash wins remain trapped in Uzbekistan, the duopoly situation has undoubtedly helped boost reported EBITDA in both VimpelCom and TeliaSonera (see Figure 9).

Figure 9: EBITDA in Uzbekistan



Source: Handelsbanken Capital Markets, company reports

MTS’s lost licence raises red flags about country risk. In our view, this appears to be a geography where clean business practices cannot be taken for granted. The country ranks 166 out of 175 on Transparency International’s Corruption Perceptions Index, and earlier dealings in Uzbekistan was the reason that TeliaSonera’s former Chairman, CEO, CFO were forced to resign. Legal proceedings continue in Switzerland, Sweden and the US about alleged wrongdoing when Ucell’s 3G licence was acquired.

TeliaSonera currently owns 94%, with the remaining 6% held by Gibraltar-registered Takilant Ltd. Media has linked Takilant to President Islam Karimov’s daughter Goulmara Karimova.

6% minority owner has an option valued at USD 75m

In TeliaSonera’s Annual Report for 2014, the company writes that the put option is valued at the “higher of either a fixed amount of USD 75m or the fair value at the time of exercise as determined by independent appraisal.” The book value of the option is SEK 586m, which corresponds to the USD 75m threshold.

We value Ucell at zero both in our base-case sum-of-the-parts and in the scenario valuation described previously. Country risk, legal troubles and failure to withdraw cash is the fundamental reason, and we could even see a negative value of SEK 0.5 per TeliaSonera share given the cash that remains trapped in the country.

Wrapping it up

Eurasia is not getting easier

Our survey of TeliaSonera’s Eurasian exposure highlights complex ownership links and multiple minority owners. Without a resolution of the long-running Turkcell dispute, we see separation of TeliaSonera’s Eurasian assets into a new, stock-listed holding company as the only realistic alternative if TeliaSonera wants to exit the region.

Spin-off into a new holding company may be the most workable option

Staying around might appear to be the best available option, and it is possible that developments involving Turkcell could open up new possibilities. Nevertheless, Eurasia remains a difficult region in which to do business. New licences will need to be secured in the future. Despite TeliaSonera’s strong, improved governance agenda, continued presence may eventually prove unfeasible.

Appendix B: Sum-of-the-parts valuation

Our base-case sum-of-the-parts valuation prices Sweden at 9x EV/EBITDA and points to a fair share value of SEK 50.1. Turkcell, Megafon and Kcell are valued at their traded market caps. Ucell (Uzbekistan) is valued at zero since the currency is illiquid and TeliaSonera is unable to withdraw cash. Given SEK 1.5bn is trapped in cash and a further SEK 0.7bn is in short-term investments, the net value of Ucell could even be a negative SEK 0.5 per share. We value Ncell (Nepal) at a high premium for its fast growth, but note some risk to the valuation, as TeliaSonera has flagged administrative hurdles that hinder cash extraction from TeliaSonera's easternmost asset.

Table 6: Base-case sum-of-the-parts

SEKm		EV	per share	%	Sales 2015e	EBITDA 2015e	Cash Flow* 2015e	EV/Sales	EV/EBITDA	CF yield*
Sweden	100%	119,086	27.5	43%	36,555	13,232	7,997	3.3	9.0	6.7%
Finland	100%	29,780	6.9	11%	13,139	3,971	-	2.3	7.5	
Norway	100%	22,402	5.2	8%	9,135	2,635	-	2.5	8.5	
Denmark	100%	7,371	1.7	3%	5,880	737	-	1.3	10.0	
Lithuania	100%	6,080	1.4	2%	3,024	935	-	2.0	6.5	
Latvia	60.3%	1,960	0.5	1%	1,441	500	-	2.3	6.5	
Estonia	100%	5,769	1.3	2%	2,656	888	-	2.2	6.5	
Spain	76.6%	5,506	1.3	2%	7,188	574	-	1.0	12.5	
Eliminations	100.0%	0	0.0	0%	-96	0	-	n.m.	6.5	
Europe		78,867	18.2	28%	42,367	10,240	4,725	1.9	8.0	5.8%
Kazakhstan (implied at USD 8.7)	54%	7,933	1.8	3%	7,921	4,149	-	1.9	3.6	
Azerbaijan	30%	2,303	0.5	1%	3,545	1,917	-	2.2	4.0	
Uzbekistan	94%	0	0.0	0%	4,309	2,182	-	0.0	0.0	
Tajikistan	60%	838	0.2	0%	787	254	-	1.8	5.5	
Georgia	59%	860	0.2	0%	817	267	-	1.8	5.5	
Moldova	59%	295	0.1	0%	465	92	-	1.1	5.5	
Nepal	60%	14,493	3.3	5%	4,643	2,666	-	5.2	9.0	
Eliminations	54%	-282	-0.1	0%	-4	-116	-	n.m.	4.5	
Eurasia	54%	26,440	6.1	10%	22,483	11,410	6,252	2.2	4.3	12.7%
International Carrier	100%	2,963	0.7	1%	6,253	423	-	0.5	7.0	
Other	100%	0	0.0	0%	1,112	26	-	0.0	0.0	
Other operations	100%	2,963	0.7	1%	7,365	450	-1,614	0.4	6.6	n.m.
Turkcell (at USD 10.7)	38%	29,648	6.8	11%	42,878	13,553	6,533	1.2	3.9	12.4%
Megafon (at USD 14.5)	25%	18,771	4.3	7%	43,667	19,416	8,242	2.1	4.6	9.2%
Lattelecom	49%	1,173	0.3	0%						
Associated companies (SEKm)		49,592	11.5	18%	86,544	32,969				
Total Group		276,949	64	100%						
Net debt (year-end 2015e)		-62,094	-14.3							
Add back unpaid dividends		0	0.0							
Add future Megafon payments from Usmano		2,000	0.5							
Sum-of-the-parts equity value		216,855	50.1							

Some subtotals may not add up due to eliminations. Cash flow defined as EBITDA-Capex, cash flow yield relates CF to EV.

Eurasia excludes indirect ownership through Turkcell. Total indirect exposure is 58%.

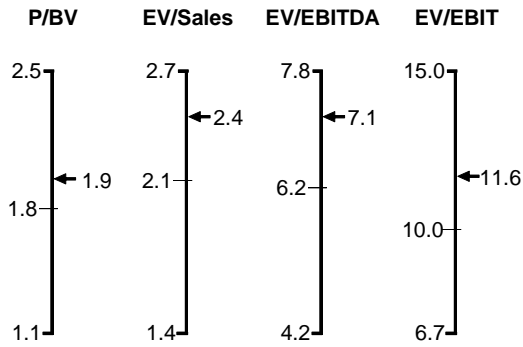
Lithuania includes the TEO fixed business where TeliaSonera owns 88.2%

Turkcell and Megafon valued at their traded market cap; the EV column shows share in market cap, but EV multiples adjust for debt.

Source: Handelsbanken Capital Markets

Valuation charts

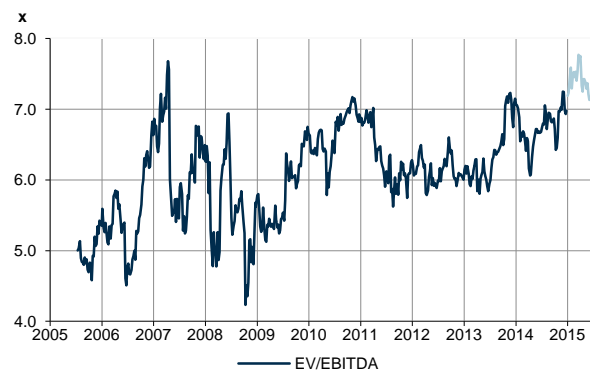
Current vs. high/low/median, 10 years



P/E



EV/EBITDA



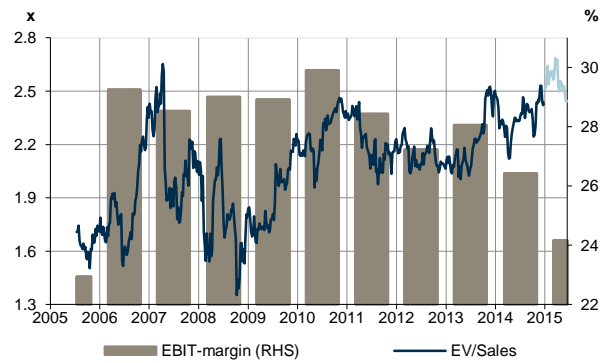
EV/EBIT



P/BV and ROE



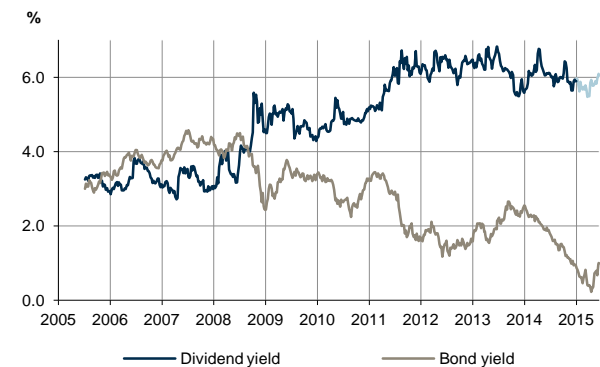
EV/Sales and EBIT margin



FCFE yield



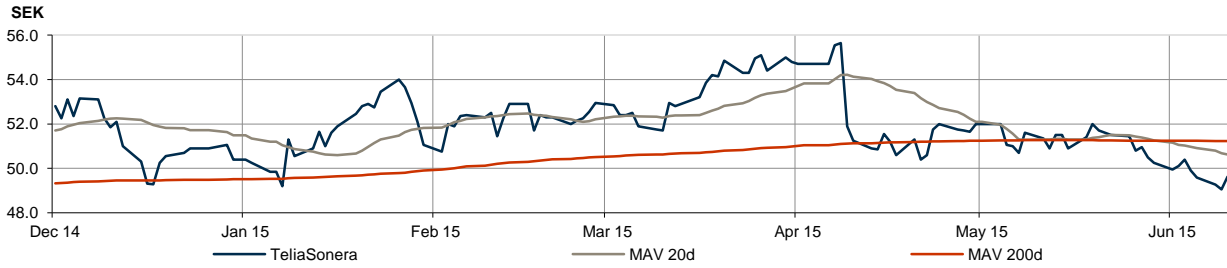
Dividend (ordinary) and bond yield (10-year)



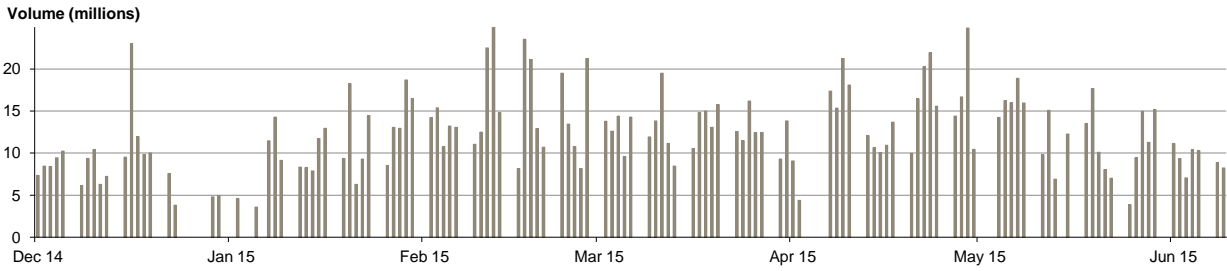
Source: Handelsbanken Capital Markets and company fundamentals

Technical indicators, six months

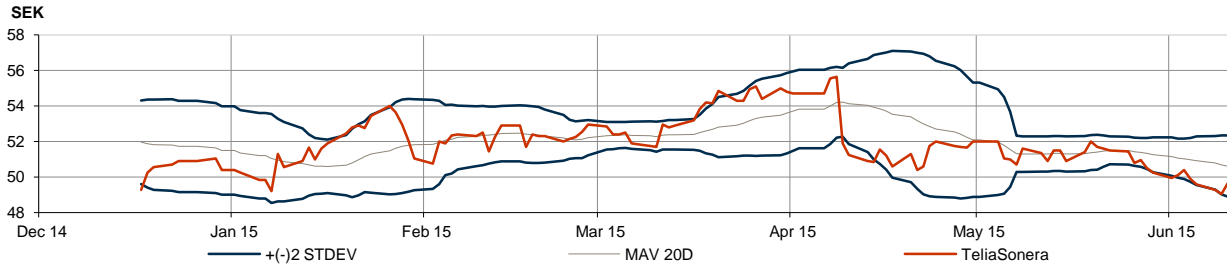
Share price and moving averages



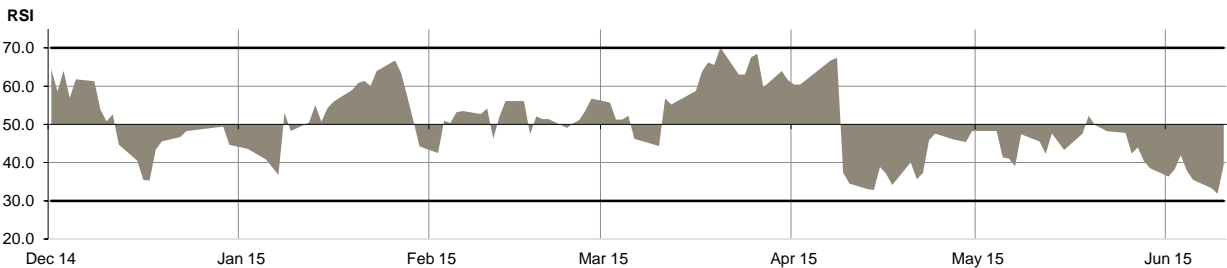
Volume



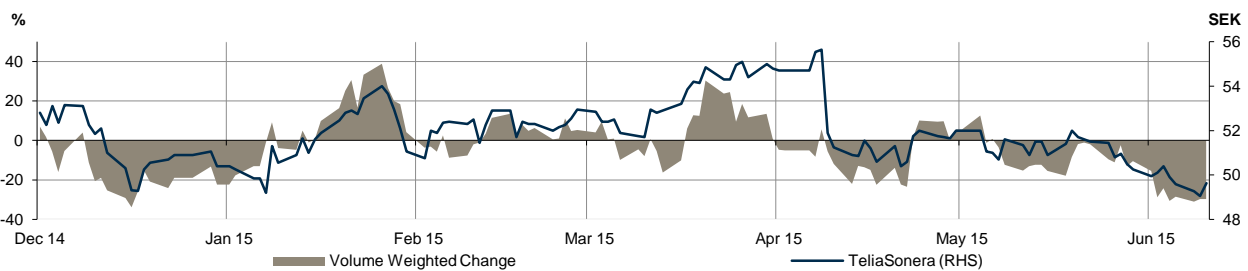
Bollinger bands



Relative strength index (RSI)



Volume-weighted change (VWC)

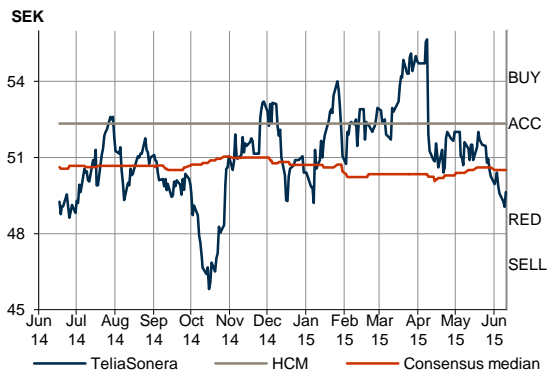


Source: FactSet

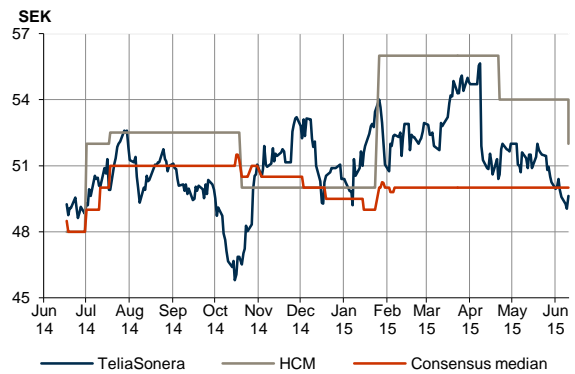
Note: RSI compares the magnitude of recent share price gains with the magnitude of recent share price losses. Rule-of-thumb: RSI>70 => overbought. RSI<30 oversold. VWC is the volume weighted relation between [close-open] and [high-low] and indicates the momentum of the price change.

Momentum

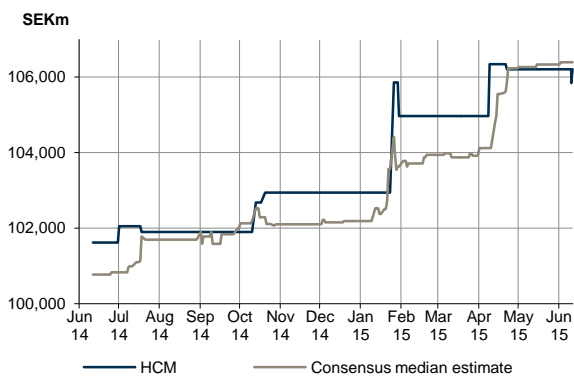
12-month share price vs. recommendation



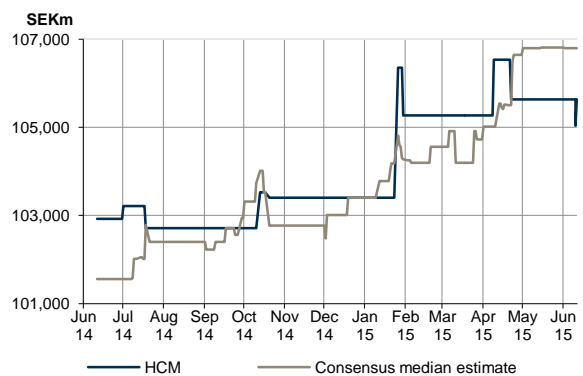
12-month share price vs. target price



Sales estimate revisions, 2015



Sales estimate revisions, 2016



Source: Handelsbanken Capital Markets and FactSet

Opportunities

- Cost-cutting
- Mobile data growth in Eurasia
- Resumed dividend payout from Turkcell
- Further distribution of cash to shareholders

Source: Handelsbanken Capital Markets

Risks

- Increased mobile price pressure in Sweden
- Margin erosion from mobile handset subsidies
- Ownership deadlock in Turkey
- New competitors in Eurasia

Source: Handelsbanken Capital Markets

Valuation data

SEK	2010	2011	2012	2013	2014	2015e	2016e	2017e
Share price year-end/current	53.0	46.8	44.1	53.5	50.4	49.6	49.6	49.6
Share price high	56.6	55.4	49.6	54.9	53.6	55.9	-	-
Share price low	43.8	40.6	41.0	41.8	44.0	48.8	-	-
Market cap (SEKm)	238,075	202,518	190,784	231,876	218,236	214,902	214,902	214,902
Net debt (SEKm)	47,309	65,079	59,443	55,774	59,320	62,094	62,245	62,721
MV associates (SEKm)	49,592	49,592	49,592	49,592	49,592	49,592	49,592	49,592
MV minorities (SEKm)	26,010	26,010	26,010	26,010	26,010	26,010	26,010	26,010
EV (SEKm)	261,802	244,015	226,644	264,068	253,974	253,414	253,565	254,041
P/E reported (x)	11.2	11.1	9.6	15.5	15.0	13.1	12.8	12.6
P/E adj (x)	11.2	11.1	10.2	12.1	12.1	12.6	12.8	12.6
Pre-tax ROIC (%)	13.1	13.0	12.1	12.1	11.7	11.5	11.4	11.2
EV/sales (x)	2.4	2.3	2.2	2.6	2.5	2.39	2.41	2.42
EV/EBITDA (x)	7.1	6.6	6.3	7.4	7.2	7.2	7.3	7.3
EV/EBIT (x)	10.8	10.1	15.4	11.7	11.5	11.9	12.0	12.0
EBIT adj margin (%)	29.9	28.4	27.2	28.1	26.4	24.1	24.7	25.0
EBITDA adj margin (%)	34.5	35.5	34.4	35.0	34.9	33.4	33.3	33.3
FCF adj yield (%)	4.3	3.7	10.4	6.5	5.5	5.9	5.0	6.0
Tot Div yield (%)	5.2	6.1	6.5	5.6	6.0	6.0	6.2	6.4
Payout ratio (%)	58.3	67.9	62.1	86.8	89.6	79.0	80.2	81.5

Source: Handelsbanken Capital Markets

Peer group valuation

HCMe	Price	Prop. EV/EBITDA			Prop. EBITDA growth CAGR 2015-18e	EFCF yield			Dividend yield		P/E		Performance	
		15e	16e	17e		15e	16e	17e	15e	16e	15e	16e	3m	12m
Telenor	175	8.3	7.9	7.5	3.8	3.1	5.0	6.0	4.3	4.5	16.9	15.6	18	21
TDC	49	7.0	7.0	6.9	-0.3	8.2	7.5	7.6	5.1	5.1	13.0	12.0	-7	-4
TeliaSonera	51	7.8	7.8	7.8	0.5	5.7	4.9	5.8	5.8	6.0	13.1	13.2	5	9
Millicom	669	6.9	6.4	5.8	7.9	-2.0	2.5	3.9	3.3	3.4	320	53	20	11
Elisa	27.4	10.2	10.0	9.8	0.7	5.3	5.8	5.9	4.8	4.8	19.0	18.4	18	26
Tele2	97	9.1	8.7	8.3	6.1	1.4	4.9	5.8	5.5	6.0	21.0	18.5	20	38
Simple average		8.2	8.0	7.7	3.1	3.6	5.1	5.8	4.8	5.0	67.1	21.8	12	17

Factset	Price	Prop. EV/EBITDA			EBITDA growth CAGR 2015-18e	FCF yield			Dividend yield		P/E		Performance	
		15e	16e	17e		15e	16e	17e	15e	16e	15e	16e	3m	12m
Belgacom	32.3	7.5	7.3	7.2	0.7	4.9	5.1	5.2	4.8	4.8	18.7	18.6	0	36
BT	4.5	6.9	6.7	6.3	2.2	7.1	8.8	9.8	3.2	3.5	14.7	13.9	-1	14
Deutsche Telekom	16.3	6.0	5.8	5.5	4.6	5.8	7.7	8.7	3.5	3.9	22.1	18.5	0	32
Orange (FT)	14.5	5.1	5.0	4.9	0.9	9.8	9.2	9.4	4.4	4.5	15.0	14.0	-4	15
KPN	3.4	8.7	8.5	8.1	1.7	5.5	5.8	6.4	2.7	3.3	65.0	43.8	11	25
Orange Polska	10.3	4.7	4.8	4.7	-3.2	3.1	12.3	12.1	5.3	6.8	45.1	42.3	12	3
OTE	8.0	3.2	2.8	2.4	0.1	14.2	17.8	18.6	2.9	4.0	10.9	9.4	-10	-32
Swisscom	554	8.3	8.1	7.9	1.2	5.9	6.3	6.6	4.1	4.2	17.0	16.5	5	9
Telecom Italia	1.1	5.6	5.3	5.1	0.2	5.0	7.4	7.4	0.7	1.1	19.6	17.2	5	13
Telefonica	13.1	6.7	6.1	5.9	3.8	4.9	7.1	7.6	5.9	5.8	16.8	14.9	0	11
Telekom Austria	6.4	5.1	4.8	4.5	2.9	9.3	8.5	10.5	0.8	2.2	16.9	15.0	0	-2
Vodafone	2.5	7.8	7.5	7.2	4.2	4.2	5.6	7.4	4.8	4.8	43.1	37.3	16	27
Simple average		6.3	6.1	5.8	1.6	6.6	8.5	9.1	3.6	4.1	25.4	21.8	3	12

Source: Handelsbanken Capital Markets

DCF model assumptions

SEKm	2014	2015e	2016e	2017e	2018e	2019e	2024e	2029e	2034e
Sales	100,890	105,841	105,037	104,914	105,124	105,569	110,954	116,614	122,562
EBITDA - Reported	33,675	34,612	34,826	34,867	35,176	35,696	36,214	37,525	39,534
EBITA2 - Reported (=EBITA	20,123	20,573	21,003	21,079	21,375	21,848	22,191	23,323	24,512
%	2014	2015e	2016e	2017e	2018e	2019e	2024e	2029e	2034e
Sales CAGR, %	-0.8	4.9	-0.8	-0.1	0.2	0.4	1.0	1.0	1.0
EBITDA growth	-1.0	0.3	-1.1	0.1	0.9	1.5	0.3	0.7	1.0
EBITA growth	-2.0	-3.5	-0.8	0.4	1.4	2.2	0.3	1.0	1.0
EBITDA margin	34.9	33.4	33.3	33.3	33.6	33.9	32.6	32.2	32.3
EBITA margin	21.9	20.1	20.1	20.2	20.4	20.8	20.0	20.0	20.0
Capex/sales	16.1	17.3	16.2	13.8	13.7	13.7	13.9	12.3	12.3
Capex/depreciation (x)	1.2	1.3	1.2	1.1	1.0	1.0	1.1	1.0	1.0
Net working cap/sales	6.6	7.7	8.7	9.9	10.9	11.6	4.3	4.3	4.3

WACC assumptions, %		Calculation of DCF, SEKm		DCF checkpoints, %	
Risk-free interest rate	2.2	NPV FCFF	274,022	5y hist sales growth	-1.6
Equity market risk premium	4.5	ND inc off-BS & Hybrids	59,320	5y exp sales growth	0.9
Extra risk premium	-	Mkt value Preferred stock	-	Sustainable growth	150.0
Equity beta (x)	1.15	Mkt value Associates	49,592	Sust EBITDA margin	32.3
Implicit asset beta	0.95	Mkt value Minorities	26,010	Sust EBITA margin	20.0
Cost of equity	7.3	Surplus values	-	Sust after-tax ROIC	8.8
Pre-tax cost of debt	4.0	Other adjustments	-12,990	Terminal value/DCF	39
Equity weight	80.0	DCF Value	225,294	Implicit equity weight	82
WACC	6.4	DCF/share (SEK)	52.0	Share price potential	5

Source: Handelsbanken Capital Markets

P&L accounts – quarterly data

SEKm	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15e	Q3 15e	Q4 15e
Sales	23,926	24,985	25,417	26,562	26,041	26,527	26,203	27,070
Total op expenses	-15,671	-16,776	-16,614	-18,153	-17,878	-17,815	-17,181	-18,355
EBITDA	8,255	8,209	8,803	8,409	8,163	8,712	9,022	8,715
Depreciation & impairment	-3,150	-3,339	-3,670	-3,392	-3,537	-3,567	-3,436	-3,499
EBITA	5,105	4,869	5,132	5,016	4,626	5,145	5,586	5,216
Goodwill amort & writedown	0	0	0	-2,037	-	-	-	-
Associated income & other	1,091	756	1,201	1,546	493	1,230	1,255	1,278
EBIT	6,196	5,625	6,333	4,525	5,119	6,376	6,841	6,494
Net financials	-780	-625	-669	-498	-394	-635	-660	-615
EBT	5,416	5,001	5,664	4,027	4,725	5,741	6,181	5,879
Reported tax	-1,062	-1,059	-1,231	-1,157	-615	-1,206	-1,298	-1,235
<i>tax rate (%)</i>	<i>19.6</i>	<i>21.2</i>	<i>21.7</i>	<i>28.7</i>	<i>13.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
Minorities	-409	-397	-360	68	-396	-461	-443	-420
Net income	3,945	3,545	4,073	2,938	3,714	4,074	4,439	4,224

Growth %

Sales	-3	-1	0	0	9	6	3	2
Total expenses	n.m	-2	0	0	14	6	3	1
EBITDA	-2	1	0	1	-1	6	2	4
EBIT	-5	-10	-11	-1	-17	13	8	44
EBT	-4	-9	-11	5	-13	15	9	46
Net income	-4	-12	-12	34	-6	15	9	44

% of sales

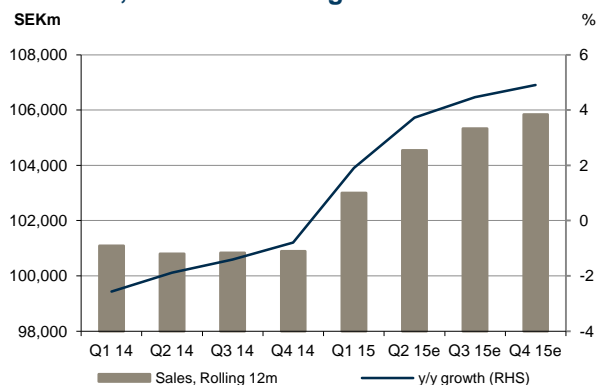
EBITDA margin	34.5	32.9	34.6	31.7	31.3	32.8	34.4	32.2
EBIT margin	25.9	22.5	24.9	17.0	19.7	24.0	26.1	24.0
EBT margin	22.6	20.0	22.3	15.2	18.1	21.6	23.6	21.7
Net margin	18.2	15.8	17.4	10.8	15.8	17.1	18.6	17.2

Adjusted values SEKm

Total adjustments to net inc	-70	-558	-767	-2,181	-279	-96	-92	-82
EBITDA	8,345	8,836	9,439	8,604	8,540	8,835	9,139	8,820
<i>margin (%)</i>	<i>34.9</i>	<i>35.4</i>	<i>37.1</i>	<i>32.4</i>	<i>32.8</i>	<i>33.3</i>	<i>34.9</i>	<i>32.6</i>
EBITA	5,195	5,591	6,065	5,211	5,003	5,268	5,703	5,322
<i>margin (%)</i>	<i>21.7</i>	<i>22.4</i>	<i>23.9</i>	<i>19.6</i>	<i>19.2</i>	<i>19.9</i>	<i>21.8</i>	<i>19.7</i>
EBIT	6,286	6,347	7,266	6,757	5,496	6,498	6,958	6,599
<i>margin (%)</i>	<i>26.3</i>	<i>25.4</i>	<i>28.6</i>	<i>25.4</i>	<i>21.1</i>	<i>24.5</i>	<i>26.6</i>	<i>24.4</i>
EBT	5,506	5,722	6,596	6,259	5,102	5,863	6,298	5,984
Net income	4,016	4,103	4,840	5,120	3,993	4,170	4,531	4,307

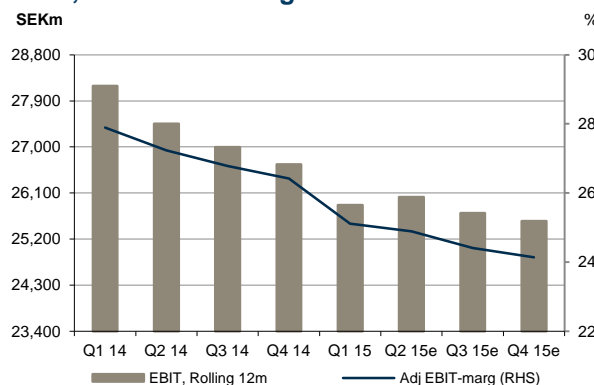
Source: Handelsbanken Capital Markets

Revenue, 12-month rolling



Source: Handelsbanken Capital Markets, FactSet

EBIT, 12-month rolling



Source: Handelsbanken Capital Markets

Business areas – quarterly data

Sales - SEKm	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15e	Q3 15e	Q4 15e
Sweden	8,712	9,099	8,985	9,661	9,050	9,106	8,905	9,495
Europe	9,597	9,797	9,935	10,338	10,330	10,517	10,468	11,052
Eurasia	4,622	5,041	5,467	5,328	5,597	5,753	5,705	5,429
Other & eliminations	-	-	-	-	1,065	1,152	1,125	1,094
Total	23,926	24,985	25,417	26,562	26,041	26,527	26,203	27,070
Y-o-y sales growth %								
Sweden	-27	-24	-26	>900	4	0	-1	-2
Europe	16	18	20	-36	8	7	5	7
Eurasia	-1	-3	3	2	21	14	4	2
Total	-3	-1	0	0	9	6	3	2
Adj EBITDA - SEKm								
Sweden	3,596	3,617	3,637	3,460	3,267	3,207	3,361	3,396
Europe	2,097	2,492	2,716	2,467	2,272	2,549	2,733	2,685
Eurasia	2,527	2,741	2,890	2,702	2,908	2,964	2,852	2,685
Other & eliminations	-	-	-	-	92	114	193	53
Total	8,345	8,836	9,439	8,604	8,540	8,835	9,139	8,820
Adj EBITDA margin %								
Sweden	41.3	39.8	40.5	35.8	36.1	35.2	37.7	35.8
Europe	21.8	25.4	27.3	23.9	22.0	24.2	26.1	24.3
Eurasia	54.7	54.4	52.9	50.7	52.0	51.5	50.0	49.5
Other & eliminations	-	-	-	-	8.7	9.9	17.2	4.9
Total	34.9	35.4	37.1	32.4	32.8	33.3	34.9	32.6

Source: Handelsbanken Capital Markets

P&L accounts – annual data

SEKm	2010	2011	2012	2013	2014	2015e	2016e	2017e
Sales	106,979	104,804	104,898	101,700	100,890	105,841	105,037	104,914
Total op expenses	-69,318	-67,623	-69,936	-68,044	-67,215	-71,229	-70,210	-70,047
EBITDA	37,661	37,181	34,962	33,656	33,675	34,612	34,826	34,867
Depreciation & impairment	-13,479	-13,263	-13,007	-13,059	-13,552	-14,039	-13,823	-13,788
EBITA	24,182	23,918	21,955	20,597	20,123	20,573	21,003	21,079
Goodwill amort & writedown	-	-	-7,535	-2,156	-2,037	-	-	-
Associated income & other	7,821	5,708	13,868	6,021	4,593	4,256	4,822	5,023
EBIT	32,003	29,626	28,288	24,462	22,679	24,829	25,825	26,102
Net interest expenses	-2,147	-2,848	-3,805	-3,094	-2,573	-2,304	-2,546	-2,552
Net financials	-2,147	-2,848	-3,805	-3,094	-2,573	-2,304	-2,546	-2,552
EBT	29,856	26,778	24,483	21,368	20,107	22,526	23,279	23,550
Paid tax	-5,994	-4,999	-4,593	-3,051	-	-3,569	-4,009	-4,055
Deferred tax	-380	-707	1,280	-1,550	-	-784	-880	-890
Reported tax	-6,374	-5,706	-3,313	-4,601	-4,508	-4,353	-4,889	-4,945
<i>tax rate (%)</i>	<i>21.3</i>	<i>21.3</i>	<i>13.5</i>	<i>21.5</i>	<i>22.4</i>	<i>19.3</i>	<i>21.0</i>	<i>21.0</i>
Minorities	-2,305	-2,731	-1,282	-1,797	-1,097	-1,721	-1,656	-1,593
Net income	21,177	18,341	19,888	14,970	14,502	16,452	16,734	17,011
Growth %								
Sales	-2	-2	0	-3	-1	5	-1	0
Total expenses	-7	-2	3	-3	-1	6	-1	0
EBITDA	7	-1	-6	-4	0	3	1	0
EBIT	6	-7	-5	-14	-7	9	4	1
EBT	8	-10	-9	-13	-6	12	3	1
Net income	9	-13	8	-25	-3	13	2	2
% of sales								
EBITDA margin	35.2	35.5	33.3	33.1	33.4	32.7	33.2	33.2
EBIT margin	29.9	28.3	27.0	24.1	22.5	23.5	24.6	24.9
EBT margin	27.9	25.6	23.3	21.0	19.9	21.3	22.2	22.4
Net margin	22.0	20.1	20.2	16.5	15.5	17.2	17.5	17.7
Profitability %								
ROE reported	16.2	15.1	17.6	13.7	13.2	14.5	14.3	14.1
ROE adj	16.2	15.2	16.5	17.6	16.5	15.0	14.4	14.2
ROCE	15.5	14.8	14.0	14.0	12.6	11.6	11.6	11.6
Pre-tax ROIC	13.1	13.0	12.1	12.1	11.7	11.5	11.4	11.2
After tax ROIC	10.5	10.5	9.9	10.3	11.7	9.7	9.5	9.3
Sales/employee (000)	3,696	3,689	3,692	3,579	3,551	3,725	3,697	3,693
Sales/capital invested	58.0	56.8	58.0	59.6	58.6	59.2	57.2	56.0
Sales/total assets	41.1	41.6	41.3	40.1	38.4	38.5	37.6	37.0
Adjusted values SEKm								
Total adjustments to net inc	7	-125	1,228	-4,246	-3,577	-548	-94	-94
EBITDA	36,897	37,223	36,059	35,584	35,223	35,335	34,946	34,987
<i>margin (%)</i>	<i>34.5</i>	<i>35.5</i>	<i>34.4</i>	<i>35.0</i>	<i>34.9</i>	<i>33.4</i>	<i>33.3</i>	<i>33.3</i>
EBITA	24,172	24,087	23,082	22,513	22,062	21,296	21,123	21,199
<i>margin (%)</i>	<i>22.6</i>	<i>23.0</i>	<i>22.0</i>	<i>22.1</i>	<i>21.9</i>	<i>20.1</i>	<i>20.1</i>	<i>20.2</i>
EBIT	31,993	29,795	28,570	28,534	26,656	25,552	25,945	26,222
<i>margin (%)</i>	<i>29.9</i>	<i>28.4</i>	<i>27.2</i>	<i>28.1</i>	<i>26.4</i>	<i>24.1</i>	<i>24.7</i>	<i>25.0</i>
EBT	29,846	26,947	24,765	25,440	24,083	23,248	23,399	23,670
Net income	21,170	18,466	18,660	19,216	18,079	17,000	16,828	17,105

Source: Handelsbanken Capital Markets

Business areas – annual data

Sales - SEKm	2010	2011	2012	2013	2014	2015e	2016e	2017e
Sweden	-	-	37,272	36,199	36,456	36,555	36,234	36,061
Europe	-	-	43,938	41,068	39,667	42,367	42,311	42,402
Eurasia	-	-	19,731	20,414	20,458	22,483	21,846	21,609
Other & eliminations	-	-	3,957	4,018	-	4,436	4,646	4,842
Total	106,979	104,804	104,898	101,700	100,890	105,841	105,037	104,914
Sales growth %								
Sweden	-	-	-	-3	1	0	-1	0
Europe	-	-	-	-7	-3	7	0	0
Eurasia	-	-	-	3	0	10	-3	-1
Other & eliminations	-	-	-	2	-	-	5	4
Total	-2.3	-2.0	0	-3.0	-0.8	4.9	-0.8	-0.1
Adj EBITDA - SEKm								
Sweden	-	-	15,266	14,514	14,311	13,232	13,191	13,294
Europe	-	-	10,260	9,740	9,772	10,240	10,516	10,791
Eurasia	-	-	10,007	10,804	10,859	11,410	10,779	10,428
Other & eliminations	-	-	525	527	-	453	461	474
Total	36,897	37,223	36,059	35,584	35,223	35,335	34,946	34,987
Adj EBITDA margin %								
Sweden	-	-	41.0	40.1	39.3	36.2	36.4	36.9
Europe	-	-	23.4	23.7	24.6	24.2	24.9	25.4
Eurasia	-	-	50.7	52.9	53.1	50.8	49.3	48.3
Other & eliminations	-	-	13.3	13.1	-	10.2	9.9	9.8
Total	34.5	35.5	34.4	35.0	34.9	33.4	33.3	33.3

Source: Handelsbanken Capital Markets

Forecast balance sheet

SEKm	2010	2011	2012	2013	2014	2015e	2016e	2017e
Accounts receivable	19,905	20,924	22,298	19,346	20,137	22,227	23,108	23,081
Inventory	1,395	1,475	1,623	1,582	1,779	1,866	1,852	1,850
Other current assets	2,565	1,644	3,647	6,313	10,993	11,532	11,445	11,431
Cash other interest-bearing	15,344	12,600	29,805	31,721	28,735	25,961	25,810	25,334
Current assets	39,209	36,643	57,373	58,962	61,644	61,586	62,215	61,696
Goodwill	77,207	76,850	68,213	66,057	66,057	67,557	67,557	67,557
Other intangible	13,324	15,065	15,065	15,465	20,104	23,104	23,104	23,104
Tangible assets	58,353	59,580	62,657	64,792	69,669	73,990	77,138	77,853
Shares associates	46,458	47,692	40,153	38,073	38,256	34,945	35,390	38,088
Oth non-IB fixed assets	12,836	15,888	8,541	6,251	2,902	2,902	2,902	2,902
Other financial assets	3,164	2,163	2,339	3,228	13,434	13,434	13,434	13,434
Total assets	250,551	253,881	254,341	252,828	272,066	277,518	281,739	284,634
Equity	125,907	116,680	109,440	108,324	111,383	114,845	118,588	122,177
Minorities	6,758	7,353	3,956	4,610	4,981	4,902	4,708	4,401
Shareholders equity	132,665	124,033	113,396	112,934	116,364	119,746	123,296	126,578
Deferred tax liabilities	22,849	24,163	22,012	21,781	26,108	26,892	27,771	28,662
LT interest-bearing debt	60,944	68,108	82,184	80,089	90,168	90,168	90,168	90,168
ST interest-bearing debt	4,873	11,734	9,403	10,634	11,321	11,321	11,321	11,321
Provisions	1,593	1,409	1,190	1,356	1,887	1,887	1,887	1,887
Trade payables	27,627	24,434	26,156	26,034	26,218	27,505	27,296	26,019
Current liabilities	32,500	36,168	35,559	36,668	37,539	38,826	38,617	37,340
Total equity & liabilities	250,551	253,881	254,341	252,828	272,066	277,518	281,739	284,634
Net interest bearing debt	47,309	65,079	59,443	55,774	59,320	62,094	62,245	62,721

Source: Handelsbanken Capital Markets

Forecast cash flow

SEKm	2010	2011	2012	2013	2014	2015e	2016e	2017e
EBIT before associates	24,182	23,918	21,955	20,597	20,123	20,573	21,003	21,079
+ Net financials	-1,961	-2,094	-2,342	-2,521	-2,607	-2,304	-2,546	-2,552
- Paid Tax	-5,994	-4,999	-4,593	-3,051	-3,178	-3,569	-4,009	-4,055
+ Dividends from associates	1,721	496	12,512	2,170	2,136	5,567	2,377	2,325
- Chg in NWC	-1,397	-1,832	-1,456	518	-447	-1,430	-989	-1,234
+ Depreciation/Impairment	13,481	12,971	13,007	13,059	13,552	14,039	13,823	13,788
- Dividends paid to minorities	-2,859	-2,490	-3,929	-1,279	-1,058	-1,800	-1,850	-1,900
+ Other adjustment	-2,598	-1,437	-204	264	-327	-	-	-
Cash flow from operations (CFFO)	24,575	24,533	34,950	29,757	28,194	31,076	27,811	27,451
- Net recurring capex	-14,446	-17,090	-15,139	-14,726	-16,205	-18,360	-16,971	-14,504
FCF bef Acq. & Div. (FCF)	10,129	7,443	19,811	15,031	11,989	12,716	10,839	12,947
- Acquisitions	-3,182	-286	-12,654	-1,384	-895	-4,500	-	-
+ Divestments	1,684	858	12,724	2,751	2,150	2,000	2,000	-
FCF to Equity (FCFE)	8,631	8,015	19,881	16,398	13,244	10,216	12,839	12,947
- Paid dividends to share holders	-10,104	-12,349	-12,341	-12,341	-12,990	-12,990	-12,990	-13,423
- Share buy-backs	-	-9,983	-	-	-	-	-	-
+ Other adjustments	339	-3,453	-1,904	-389	-3,800	-	-	-
NET Cash flow/Chg in NIBD	-1,134	-17,770	5,636	3,669	-3,546	-2,774	-151	-476
Funds from operations (FFO)	21,392	23,379	19,965	25,790	25,447	25,139	24,572	24,460
Cash flow from operations (CFFO)	24,575	24,533	34,950	29,757	28,194	31,076	27,811	27,451
FCF bef Acquisitions & Divestments	10,129	7,443	19,811	15,031	11,989	12,716	10,839	12,947
FCF to Equity (FCFE)	8,631	8,015	19,881	16,398	13,244	10,216	12,839	12,947

Source: Handelsbanken Capital Markets

Financial ratios

%	2010	2011	2012	2013	2014	2015e	2016e	2017e
Equity/total assets	52.9	48.9	44.6	44.7	42.8	43.1	43.8	44.5
Net debt/equity	35.7	52.5	52.4	49.4	51.0	51.9	50.5	49.6
Net debt/EBITDA (x)	1.3	1.8	1.7	1.7	1.8	1.8	1.8	1.8
Net cash flow/capex	-7.8	-104	37.2	24.9	-21.9	-15.1	-0.89	-3.3
EBITDA net interest cover (x)	17.5	13.1	9.2	10.9	13.1	15.0	13.7	13.7
EBIT net interest cover (x)	14.9	10.4	7.4	7.9	8.8	10.8	10.1	10.2
FCFF/total debt	9.1	6.7	5.1	13.3	11.2	6.3	7.5	9.2
Total debt/capital	33.2	39.2	44.7	44.5	46.6	45.9	45.1	44.5
Short-term debt/capital	2.5	5.8	4.6	5.2	5.2	5.1	5.0	5.0
Long-term debt/capital	30.7	33.4	40.1	39.3	41.4	40.8	40.1	39.5
Inventory/sales	1.3	1.4	1.5	1.6	1.8	1.8	1.8	1.8
Receivable/sales	21.0	21.5	24.7	25.2	30.9	31.9	32.9	32.9
Acc.payable/sales	27.3	24.7	26.1	26.9	27.9	27.8	27.8	26.6
Working capital/sales	-3.5	-0.37	1.3	1.2	6.6	7.7	8.7	9.9
Current ratio	121	101	161	161	164	159	161	165
Quick ratio	116	97.2	157	156	159	154	156	160

Source: Handelsbanken Capital Markets

Per share data

SEK	2010	2011	2012	2013	2014	2015e	2016e	2017e
No of shares, year-end (m)	4,490	4,330	4,330	4,330	4,330	4,330	4,330	4,330
No of shares, average (m)	4,490	4,370	4,330	4,330	4,330	4,330	4,330	4,330
EPS reported	4.72	4.20	4.59	3.46	3.35	3.80	3.86	3.93
<i>Y-o-y growth (%)</i>	9	-11	9	-25	-3	13	2	2
EPS adj	4.71	4.23	4.31	4.44	4.18	3.93	3.89	3.95
<i>Y-o-y growth (%)</i>	4	-10	2	3	-6	-6	-1	2
Cash earnings	6.0	5.9	6.1	5.6	5.9	6.1	5.9	6.0
DPS - ordinary	2.75	2.85	2.85	3.00	3.00	3.00	3.10	3.20
<i>Payout ratio (%)</i>	58.3	67.9	62.1	86.8	89.6	79.0	80.2	81.5
Buy-backs	-	2.28	-	-	-	-	-	-
Buy-backs, no shares (m)	-	160.4	-	-	-	-	-	-
<i>Buy-back payout ratio (%)</i>	-	54.2	-	-	-	-	-	-
<i>Tot cash payout ratio (%)</i>	47.7	120	62.1	82.4	89.6	79.0	77.6	78.9
Book value	28.0	26.9	25.3	25.0	25.7	26.5	27.4	28.2
<i>Y-o-y growth (%)</i>	-7	-4	-6	-1	3	3	3	3
Net debt	10.5	15.0	13.7	12.9	13.7	14.3	14.4	14.5
NAV	8.6	6.2	8.2	8.9	8.4	9.0	9.7	9.9

Source: Handelsbanken Capital Markets

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HCM rating	R _{TP} is expected to be ¹	HCM Universe ²	IB services ³
Buy	>+20%	24%	8%
Accumulate	+5% - +20%	48%	7%
Reduce	-15% - +5 %	27%	2%
Sell	< -15 %	1%	0%

1 R_{TP} is defined as the expected share price appreciation (depreciation) including dividends over the next 12 months

2 Percentage of companies under coverage within each rating category

3 Percentage of companies within each rating category for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 10/6 2015
Reiterated Accumulate SEK 49.63

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TeliaSonera

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As of Jun 10, 2015

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Company overview

P&L SEK	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e
Sales, bn	52.1	54.1	80.9	81.0	81.8	81.9	87.7	91.1	96.3	103.6	109.5	107.0	104.8	104.9	101.7	100.9	105.8	105.0	104.9
growth (%)	5	4	50	0	1	0	7	4	6	8	6	-2	-2	0	-3	-1	5	-1	0
SG&A to sales %	24.6	27.4	20.6	20.2	21.6	20.7	20.7	20.7	0	0	0	0	0	0	0	0	0	0	0
EBITDA, bn	12.8	21.3	29.1	15.4	30.3	30.8	26.1	31.1	30.6	31.7	35.2	37.7	37.2	35.0	33.7	33.7	34.6	34.8	34.9
margin %	24.7	39.4	35.9	19.0	37.1	37.6	29.8	34.2	31.7	30.6	32.2	35.2	35.5	33.3	33.1	33.4	32.7	33.2	33.2
EBITA, bn	5.5	13.9	12.3	-8.8	17.0	16.2	14.3	19.9	18.7	19.6	22.3	24.2	23.9	22.0	20.6	20.1	20.6	21.0	21.1
margin %	10.6	25.8	15.2	-10.9	20.8	19.8	16.3	21.9	19.4	18.9	20.4	22.6	22.8	20.9	20.3	19.9	19.4	20.0	20.1
EBIT, bn	5.9	11.9	9.6	-46.0	13.1	18.8	17.5	25.5	26.4	28.6	30.3	32.0	29.6	28.3	24.5	22.7	24.8	25.8	26.1
margin %	11.4	21.9	11.8	-56.8	16.1	22.9	20.0	28.0	27.4	27.7	27.7	29.9	28.3	27.0	24.1	22.5	23.5	24.6	24.9
Net income, bn	4.2	10.3	2.1	-32.9	7.7	13.0	11.7	17.0	17.9	19.0	19.4	21.2	18.3	19.9	15.0	14.5	16.5	16.7	17.0
growth %	-16	143	-79	n.m	n.m	69	-10	45	5	6	2	9	-13	8	-25	-3	13	2	2
Adj net income, bn	4.2	10.7	-1.8	22.3	12.8	16.6	13.5	17.7	18.7	20.0	20.4	21.2	18.5	18.7	19.2	18.1	17.0	16.8	17.1

Balance sheet

Tangible assets, bn	33.3	43.8	47.3	56.2	49.2	47.2	48.2	48.2	52.6	61.9	61.2	58.4	59.6	62.7	64.8	69.7	74.0	77.1	77.9
Goodwill, bn	1.1	23.9	24.7	58.6	52.9	57.4	62.5	62.6	71.2	84.4	85.7	77.2	76.9	68.2	66.1	66.1	67.6	67.6	67.6
Current assets, bn	23.1	31.4	33.3	33.8	37.0	39.5	40.7	35.2	31.6	39.1	47.4	39.2	36.6	57.4	59.0	61.6	61.6	62.2	61.7
Cash, bn	1.8	1.5	9.1	6.7	12.3	17.2	16.8	11.6	7.8	11.8	22.5	15.3	12.6	29.8	31.7	28.7	26.0	25.8	25.3
Total assets, bn	76.6	122.7	128.2	206.7	190.1	192.0	203.8	199.4	216.7	264.3	269.7	250.6	253.9	254.3	252.8	272.1	277.5	281.7	284.6
Equity, bn	32.9	56.0	59.9	108.8	112.4	121.1	127.0	119.2	117.3	130.4	135.4	125.9	116.7	109.4	108.3	111.4	114.8	118.6	122.2
Minority, bn	-	-	-	-	-	-	8.6	8.5	9.8	11.1	7.1	6.8	7.4	4.0	4.6	5.0	4.9	4.7	4.4
LT int bearing debt, b	9.1	20.9	25.2	32.1	25.9	12.9	20.5	24.3	41.0	54.2	63.7	60.9	68.1	82.2	80.1	90.2	90.2	90.2	90.2
ST int bearing debt, b	6.9	13.2	3.9	12.6	4.7	11.7	6.2	3.4	2.5	11.6	8.2	4.9	11.7	9.4	10.6	11.3	11.3	11.3	11.3
Current liab, bn	23.9	33.2	26.8	39.8	33.1	35.1	30.3	30.3	29.5	41.5	36.3	32.5	36.2	35.6	36.7	37.5	38.8	38.6	37.3
Total liabilities, bn	76.6	122.7	128.2	206.7	190.1	192.0	203.8	199.4	216.7	264.3	269.7	250.6	253.9	254.3	252.8	272.1	277.5	281.7	284.6
Net int bearing debt, t	11.9	30.4	14.2	38.1	18.2	7.1	6.9	11.9	32.2	44.5	46.2	47.3	65.1	59.4	55.8	59.3	62.1	62.2	62.7

Cash flow

Capex, bn	-7.9	-16.0	-21.7	-11.7	-8.7	-10.2	-11.2	-10.7	-13.3	-15.7	-13.9	-14.4	-17.1	-15.1	-14.7	-16.2	-18.4	-17.0	-14.5
FCF to firm, bn	0.6	-0.6	-2.8	-0.4	13.0	12.9	13.1	11.3	6.9	7.2	9.3	6.0	5.3	4.6	12.1	11.4	6.4	7.6	9.3
FCF to equity, bn	-1.5	-0.3	-10.0	-0.1	19.0	14.4	14.6	12.4	7.3	5.4	9.8	8.6	8.0	19.9	16.4	13.2	10.2	12.8	12.9
Acquisitions, bn	-3.4	-	-	-	-2.2	-6.2	-1.8	-3.3	-4.6	-4.1	-5.1	-3.2	-0.3	-12.7	-1.4	-0.9	-4.5	-	-
Divestments, bn	1.1	0.6	1.3	0.2	3.9	6.8	1.7	0.3	0.1	0.0	0.9	1.7	0.9	12.7	2.8	2.2	2.0	2.0	-
Dividends, bn	-1.4	-1.5	-1.5	-0.6	-1.9	-4.7	-5.4	-15.7	-28.1	-18.0	-8.1	-10.1	-12.3	-12.3	-12.3	-13.0	-13.0	-13.0	-13.4
CFFO, bn	8.8	15.1	10.4	11.4	26.0	24.0	25.9	26.0	25.1	25.2	27.9	24.6	24.5	35.0	29.8	28.2	31.1	27.8	27.5

Ratios (%)

Pre-tax ROIC	13.2	21.1	15.3	-7.8	11.9	12.1	10.3	14.1	12.5	11.3	11.9	13.1	13.0	12.1	12.1	11.7	11.5	11.4	11.2
ROE reported	13.6	23.1	3.7	-39.0	6.9	11.1	9.4	13.8	15.1	15.4	14.6	16.2	15.1	17.6	13.7	13.2	14.5	14.3	14.1
ROCE	12.2	16.8	6.1	7.4	12.0	14.6	12.8	16.8	16.9	15.9	15.0	15.5	14.8	14.0	14.0	12.6	11.6	11.6	11.6
Capex to sales	15.1	29.6	26.8	14.5	10.7	12.4	12.8	11.7	13.9	15.2	12.7	13.5	16.3	14.4	14.5	16.1	17.3	16.2	13.8
NWC to sales	8.5	18.2	1.6	-0.04	-4.5	-1.4	-0.24	-3.7	-3.3	-2.5	-3.0	-3.5	-0.37	1.3	1.2	6.6	7.7	8.7	9.9
Sales/assets (x)	0.72	0.54	0.65	0.48	0.41	0.43	0.44	0.45	0.46	0.43	0.41	0.41	0.42	0.41	0.40	0.38	0.39	0.38	0.37
Sales/IC (x)	1.24	0.82	1.01	0.72	0.57	0.61	0.63	0.65	0.64	0.60	0.58	0.58	0.57	0.58	0.60	0.59	0.59	0.57	0.56
Net debt/equity	36	54	24	33	16	6	5	9	25	31	32	36	52	52	49	51	52	50	50
Equity/total assets	43.2	45.9	46.9	55.1	60.9	66.7	66.6	64.1	58.6	53.5	52.8	52.9	48.9	44.6	44.7	42.8	43.1	43.8	44.5

Share data

Avg no shares (m)	2,851	2,933	4,668	4,668	4,668	4,675	4,490	4,490	4,490	4,490	4,490	4,490	4,490	4,330	4,330	4,330	4,330	4,330	4,330
change (%)	0	3	59	0	0	0	-4	0	0	0	0	0	0	-4	0	0	0	0	0
Bought back shares (i)	-	-	-	-	-	-	-	-	-	-	-	-	-	120	-	-	-	-	-
Avg diluted shares (m)	2,851	2,933	4,668	4,668	4,668	4,675	4,490	4,490	4,490	4,490	4,490	4,490	4,370	4,330	4,330	4,330	4,330	4,330	4,330
change (%)	0	3	59	0	0	0	-4	0	0	0	0	0	-3	-1	0	0	0	0	0
Share price YE (SEK)	-	47.3	45.5	32.0	36.7	38.8	42.5	56.0	60.2	38.7	51.6	53.0	46.8	44.1	53.5	50.4	49.6	49.6	49.6
Market cap (SEK), bn	n.m	141.9	209.7	147.3	171.4	181.4	190.7	251.3	270.2	173.8	231.6	238.1	202.5	190.8	231.9	218.2	214.9	214.9	214.9
EV (SEK), bn	n.m	159.3	213.0	167.5	172.6	175.8	149.7	214.0	202.7	194.6	254.2	261.8	244.0	226.6	264.1	254.0	253.4	253.6	254.0
Net debt/share	4.2	10.1	3.1	8.3	3.9	1.5	1.5	2.6	7.2	9.9	10.3	10.5	15.0	13.7	12.9	13.7	14.3	14.4	14.5
EPS reported	1.48	3.50	0.46	-7.0	1.64	2.77	2.60	3.78	3.99	4.23	4.32	4.72	4.20	4.59	3.46	3.35	3.80	3.86	3.93
growth (%)	-16	137	-87	n.m	n.m	69	-6	45	5	6	2	9	-11	9	-25	-3	13	2	2
EPS adj	1.48	3.66	-0.39	4.77	2.74	3.56	3.00	3.93	4.16	4.46	4.53	4.71	4.23	4.31	4.44	4.18	3.93	3.89	3.95
growth (%)	-16	147	n.m	n.m	-43	30	-16	31	6	7	2	4	-10	2	3	-6	-6	-1	2
DPS - Ordinary	0.52	0.50	0.20	0.40	1.00	1.20	1.25	1.75	1.80	1.80	2.25	2.75	2.85	2.85	3.00	3.00	3.00	3.10	3.20
DPS - Extraordinary	-	-	-	-	-	-	2.25	4.50	2.20	-	-	-	-	-	-	-	-	-	-
Value buy-back/share	-	-	-	-	-	-	2.23	-	-	-	-	-	2.28	-	-	-	-	-	-
Total cash distr./share	0.49	0.52	0.50	0.20	0.40	1.00	3.43	3.50	6.3	4.00	1.80	2.25	5.0	2.85	2.85	3.00	3.00	3.00	3.10

Valuation (x)

P/E reported	n.m	13.5	>99	n.m	22.3	14.0	16.3	14.8	15.1	9.1	12.0	11.2	11.1	9.6	15.5	15.0	13.1	12.8	12.6
P/E adjusted	n.m	12.9	n.m	6.7	13.4	10.9	14.1	14.2	14.5	8.7	11.4	11.2	11.1	10.2	12.1	12.1	12.6	12.8	12.6
P/CEPS	n.m	7.0	9.8	5.2	6.9	7.3	9.4	11.1	12.2	7									