

# Manx Telecom

**Telecommunications**
**25 September 2015**

## In a good place...

Manx Telecom (MT) has reported solid results for H115, showing the benefit of recent investments in its networks and Data Centres. The group's high network quality, solid dividend yield, safe and prosperous operating environment, as well as growth prospects in the data storage area make the stock an attractive defensive investment, in our view.

## A favourable environment from every perspective...

Manx Telecom operates in a very favourable environment. With a large number of entrepreneurial businesses and individuals attracted to the Isle of Man, demand for high-quality services is strong. Having put in place an impressive household coverage of 99% for 4G and 90% for VDSL and a strong focus on service, MT has built a loyal customer base and maintains a high market share as a result.

## New Data Centres set to boost growth

MT has built a Global Solutions and Data Centre business, which generated 26% of H115 revenue. Global Solutions offers very high-speed and highly reliable MVNO services for businesses and M2M applications in the UK. Revenue growth should resume in 2016 following a steep decline in wholesale SMS termination revenues in 2015. The Data Centre business has grown out of strong demand from domestic and international businesses for secure data storage and cloud solutions. Despite adverse changes to gaming taxes in the UK in 2014, PokerStars has been confirmed as the anchor tenant for the second of two new data centre facilities.

## Strong H1 results support the full-year consensus

MT reported a 0.8% increase in revenue and 0.6% rise in EBITDA in H115: on track for full-year consensus. Within the former, core fixed and mobile revenues grew 3.8% but the headline number was hit by a sharp decline in wholesale SMS traffic arising from an interconnection rate cut. Normalised EPS growth of 21% to 7.6p reflected the positive underlying earnings trend and the impact of interest rate cuts. With the 30 June debt renegotiation set to bring £280k more in annual cost savings, we believe that the FY consensus numbers are conservatively based.

## Valuation: Quality comes at a premium...

Manx trades on a consensus 2015e EV/EBITDA of c 9.7x, which represents a 15% premium to the Western European telecom sector of 8.5. We think that this is justifiable, given the quality of the business and the stock's defensive features.

### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/13	76.0	27.4	10.5	20.0	17.8	10.7
12/14	79.3	27.1	12.2	10.0	15.3	5.4
12/15e	80.0	27.5	13.4	10.4	13.9	5.6
12/16e	82.0	28.4	14.6	10.9	12.8	5.8

Source: Bloomberg, Edison Investment Research

**Price** 186.7p  
**Market cap** £211m

### Share price graph



### Share details

Code MANX  
 Listing AIM  
 Shares in issue 113.0m

### Business description

Manx Telecom is the incumbent fixed and mobile telecom operator on the Isle of Man. The company's high-speed fixed and mobile broadband systems cover more than 90% of households. It has also built successful data centre and global solutions businesses, which provide additional growth potential.

### Bull

- Attractive operating environment: low corporate tax, highly entrepreneurial, stable economy, good regulatory climate, affluent population.
- High dividend yield, conservative gearing and strong management are all defensive features.
- Focus on network speeds and customer service have built high degree of customer loyalty.

### Bear

- Illiquid: average trading volumes £15k/day.
- AIM listing means lower level of regulatory control.
- Increased taxation of Isle of Man e-gaming profits by UK since December 2014 may see IoM and therefore MT lose some e-gaming firms over time.

### Analysts

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