

# Manx Telecom

**Telecoms**
**14 December 2018**

## Worth listening out for clearSound

In September, Manx Telecom (MT) subsidiary Goshawk announced the launch of clearSound (MTcS), an innovative mobile phone service for people with hearing needs. Following positive feedback from test groups, MT has signed a deal with BT/EE to launch the Goshawk proposition on their UK networks and it intends invest £10m on the launch over the next three years. This has a five-year target to attract 20% of the three million people in the UK with moderate to severe hearing loss. The recent sell off of MT shares, exacerbated by UK small-cap weakness, has exposed good value in the stock, now at a high 30% P/E discount to its peers.

## MTcS: Well ahead of the competition

Conceptualised by the CEO of Goshawk who has hearing loss and developed by leading audiologists with patents pending for its advanced voice print technology, MTcS tests each customer's hearing and delivers tailored audio content to their phones. This unique product embeds its technology in telecoms networks and compensates for the typical removal of 50–75% of audio content in mobile phone calls during transit. It also tailors the signal to the user's needs. Many people with moderate to severe hearing loss do not use mobile phones due to poor audio quality and EU limits on mobile handset volume. Goshawk's own studies show that two-thirds of respondents would be willing to pay £5 or more for access to the technology, which is substantial in comparison with the average EU mobile ARPU of €13–14/month. Added to the current high level of public confidence in EE's network, this could translate into substantial demand for the mobile virtual network operator's (MVNO) services.

## Strong global solutions pipeline

By the end of 2018 MT will have completed a two-year transformation programme to reduce its cost base and develop more digital and cloud-based services. The group's new international innovation arm, Vannin Ventures, has also created a pipeline of global solutions including e-SIMs, next-generation critical coverage using satellite technology and the MTcS hearing technology. The group is also rapidly rolling out fibre to the premises with household cover to grow from 6% to 12% in H218. We see this all providing a strong basis for future earnings growth.

## Valuation: A good time to buy

MT's shares have fallen in recent months due to UK small-cap weakness and poor H1 results caused by declines in international roaming rates. We see the stock as attractively rated at a 30% below-peer 2018 P/E of 11.5x, which does not reflect the group's quality (margins, advanced network, strong economy) or its high yield.

### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/16	80.6	15.6	13.7	10.9	8.6	11.2	7.1
12/17	81.1	14.5	13.8	11.4	8.8	11.1	7.5
12/18e	79.1	15.3	13.3	12.0	8.8	11.5	7.8
12/19e	80.0	15.7	13.9	12.6	8.6	11.0	8.2

Source: Thomson Reuters

**Price** 153p  
**Market cap** £176m

### Share price graph



### Share details

Code MANX  
Listing AIM  
Shares in issue 115.1m

### Business description

Manx Telecom is the incumbent fixed and mobile telecom operator in the Isle of Man. The group's high-speed fixed and mobile broadband systems cover more than 90% of households and MT targets providing FTTP services to 12% of homes by YE18. It has also built a successful data centre and global solutions. Future growth should be enhanced by its new multi-pronged innovation incubation programme.

### Bull

- Attractive IoM operating environment: low tax rates, highly entrepreneurial, stable economy, good regulatory climate, affluent population.
- Offers highly defensive features of a fibre-rich broadband network, high EBITDA margins, strong dividend yield, and management with a strong track record.
- Innovation focus via Vannin Ventures plus fast-paced fibre roll-out and transformation to boost growth.

### Bear

- Core telecom business is relatively low growth.
- Data centre business negatively affected by reduced demand from the gaming industry.
- AIM listing means lower level of regulatory oversight.

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