

Latin American TMT



Global themes, trends, comps

A summary look at the Brazilian telco sector in a global context

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Agenda - 5 key topics

- 1) Macro rundown
- 2) Global themes, trends
- 3) Regional themes, trends
- 4) LatAm positioning, comps
- 5) What investors are looking for

1) Macro rundown

1.1) Our global macro views

- **US in GDP growth trajectory. Looking for ~3.0% growth in 2014**
 - FED may keep Treasury purchases through early 2014, rates up in 2015 only
 - Scenario partly priced-in. FED sounds dovish at the margin, waiting for activity data
 - 10-yr Treasuries might go to 3.0-4.0% in two years (2.7% now, 1.6% in 2012)
 - USD should continue to appreciate relative to several currencies (including EM)
- **Europe still a vicious circle. Growth should remain low for several years**
 - GDP growth might come back, but at 1.0% in 2014.
 - Risk of extreme event in one of the Euro countries seems low.
- **Chinese economy slowing - 7.7% in 2013, 7.6% in 2014 (10.3% last 10 yrs)**
 - Growth slowing, but still at high levels and from a larger base
 - China's growth model moving from infrastructure to consumption.
 - Risk perception in the credit markets increased following interbank rate increase.

1) Macro rundown

1.2) Our LatAm views

- Similar overall macro picture in Brazil in 2014, but more depreciated BRL
- Looking for higher growth in Mexico
- Expecting slightly higher growth in Colombia
- Lower rates and growth in Chile
- Slower growth and increasing inflation in Argentina
- Slightly slower growth in Peru, but still among the strongest in the region
- Elections could be an important catalyst in the region!

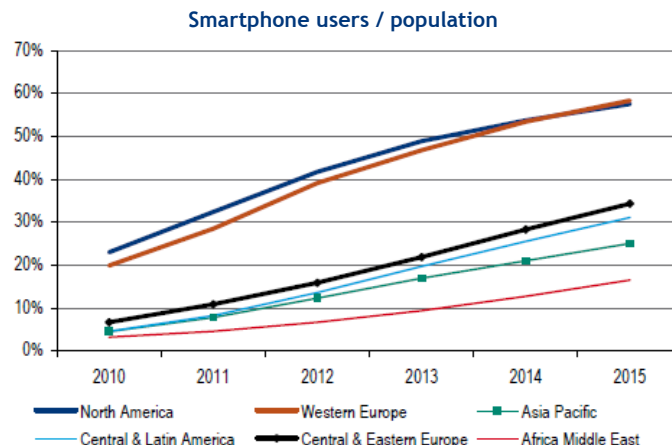
	GDP growth, %				CPI inflation*, %				Short term interest rates**, %				Exchange Rate***				
	2012A	2013E	2014E	2015E	2012A	2013E	2014E	2015E	Current	2013E	2014E	2015E	CCY Pair	Spot rate	2013E	2014E	2015E
Mexico	3.8	1.1	4.0	4.0	4.1	3.8	4.1	3.6	3.5	3.50	3.50	4.00	USD-MXN	13.29	12.80	12.90	12.50
Brazil	0.9	2.1	1.6	2.0	5.4	6.2	6.3	5.6	10.5	10.00	10.75	11.75	USD-BRL	2.37	2.25	2.50	2.60
Argentina	1.9	3.1	0.4	2.9	10.0	10.6	21.4	30.5	25.7	20.18	45.00	40.00	USD-ARS	7.82	6.30	10.00	13.00
Colombia	4.2	4.1	4.5	4.8	3.2	2.0	2.5	2.9	3.3	3.25	3.25	5.00	USD-COP	2045	1935	2050	2100
Chile	5.6	4.1	3.6	4.0	3.0	1.8	3.4	3.2	4.3	4.50	3.75	4.50	USD-CLP	556	520	570	585
Peru	6.3	4.8	4.1	3.9	3.7	2.8	2.9	3.1	4.0	4.25	4.25	5.25	USD-PEN	2.81	2.78	2.90	3.00

2) Global themes, trends

2.1) Growth slowed globally, but GEMs offer better opportunity

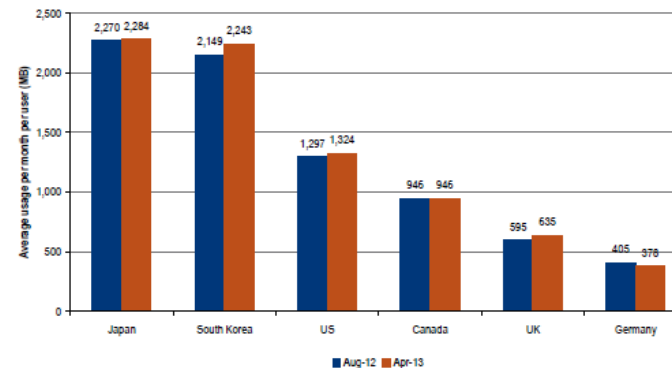
- Growth slowed all over the world
 - Wireless data disappoints as driver
 - High fixed costs - incentive to seek market share
 - Low differentiation
 - High penetration levels
 - Slower economic growth
- GEMs slowed less, offer better opportunity
 - Macro
 - Smartphone penetration
 - F2M substitution
 - LTE critical everywhere

	YoY wireless service revenue growth (in reporting currency terms)							
	2007	2008	2009	2010	2011	2012	2013E	2014E
Global Markets	11.4%	8.5%	2.9%	5.0%	4.7%	3.9%	2.9%	3.7%
Developed Markets	5.5%	2.4%	-0.2%	1.9%	1.2%	3.0%	-0.8%	1.4%
Emerging Markets	22.7%	18.8%	8.2%	9.6%	9.5%	8.7%	7.0%	6.2%
Latin America	26.3%	17.9%	6.8%	11.6%	11.0%	8.1%	3.7%	5.4%
Brazil	27.3%	20.8%	9.1%	10.0%	11.9%	6.3%	1.1%	3.1%
Verizon	16.0%	12.2%	7.7%	6.9%	6.3%	7.7%	7.6%	5.5%
AT&T	8.2%	9.2%	9.7%	9.3%	6.1%	4.3%	3.2%	3.1%



Source: Strategy Analytics

Chart 3: Android LTE smartphone average monthly cellular data use in advanced markets, Aug-12 and Apr-13

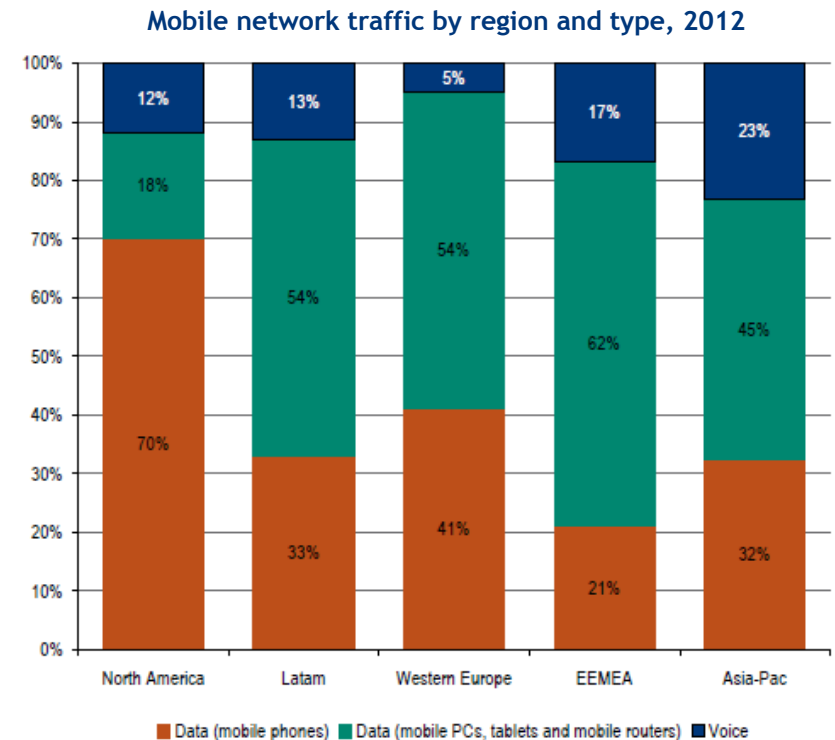


Source: Mobidia and Informa, June 2013

2) Global themes, trends

2.2) Business models, pricing shifting

- The industry searches for pricing power
 - Commoditized, high fixed costs, low differentiation
 - Current pricing - OTT contention, consumption caps, unlimited voice/SMS
- Access vs. volume/metered - Swisscom
 - Quality/speed is the differentiation
 - Requires network, billing, smartphones
- Enticing OTT providers to pay up
 - Social media is a double-edged sword
 - But revenue opportunity in GEMs



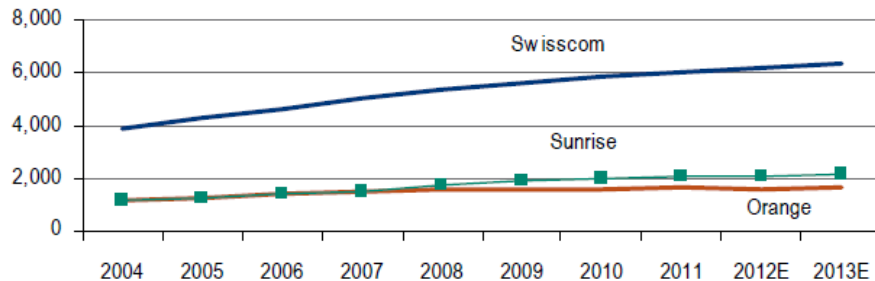
Source: Ericsson

2) Global themes, trends

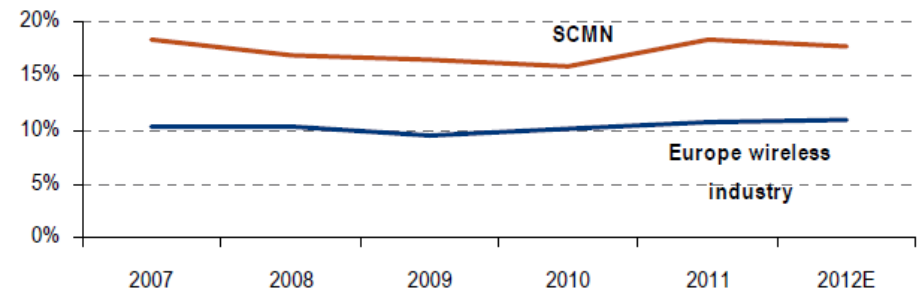
2.3) Want to differentiate? Deploy capital

- The strong get stronger - Verizon W, AT&T, Telenor, Swisscom, Vivo
- Better trends post rising capex? VOD, BT, T-Mobile Ger, EE, O2 UK
- It can't be avoided - broad, high-quality LTE, fiber = more capex, not less

Swiss wireless subs (k)



Capex/sales comp

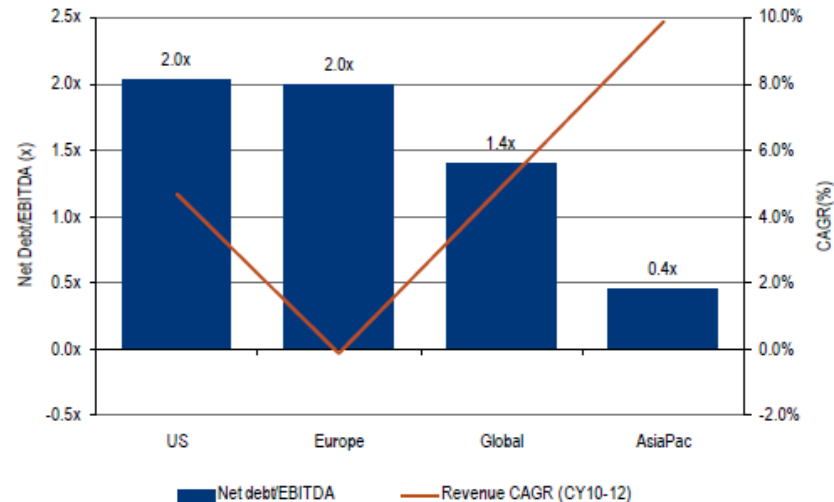
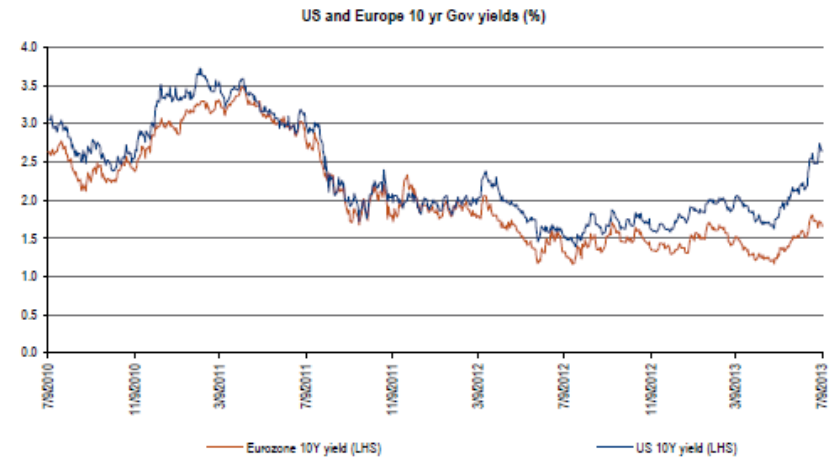


	Capex to sales ratio				
	2010	2011	2012	2013E	2014E
Global Markets	16.4%	17.1%	16.9%	17.9%	16.9%
Developed Markets	14.8%	15.3%	14.9%	15.6%	14.8%
Emerging Markets	19.9%	20.5%	20.6%	21.9%	20.5%
Latin America	14.1%	17.5%	18.9%	17.6%	17.0%
Brazil	14.4%	17.5%	20.3%	19.0%	18.1%
Verizon	15.8%	14.7%	14.0%	13.7%	13.3%
AT&T	16.3%	16.0%	15.5%	16.2%	15.7%

2) Global themes, trends

2.4) M&A is back, including cross-border

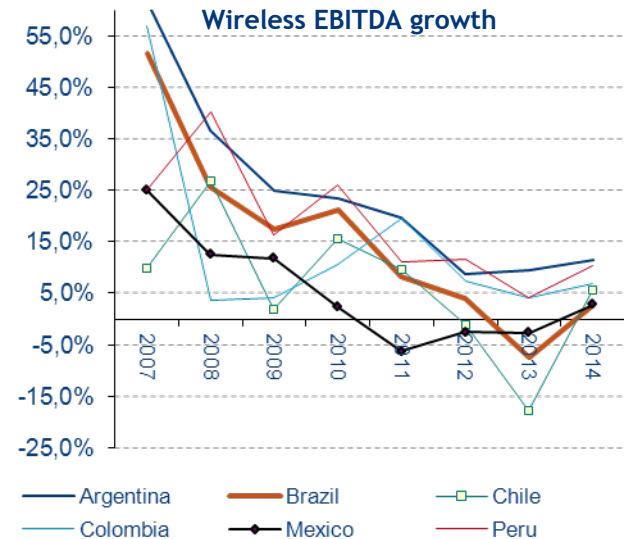
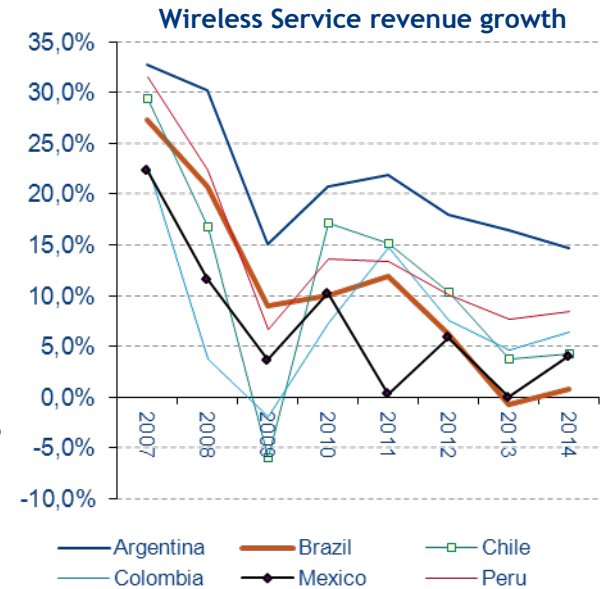
- Bottoming rates
 - Low interest rates fuel, bottoming flame
 - Balance sheets still strong, but not universally
- Business conditions
 - Slowing growth
 - Need to deploy capital
 - Margin, market protection
 - Wireless/wireline integration
 - TEF D/E-Plus, TIM?
- Cross-border too
 - Disparate valuations across regions
 - Logic unchanged - global enterprise, scale
 - Synergies limited - scale, systems, expertise
 - Softbank, America Movil, AT&T?



3) Regional themes, trends

3.1) What should reignite growth in LatAm?

- Wireless - 120% penetration, 4% revenue growth
- **Wireless data** key growth driver
 - 30% of revenues vs. 41% in developed markets
 - 15% smartphone penetration vs. 40% in developed markets
- **Must deploy capital**
 - Quality, quality, quality - customer service, network
 - Win share
 - Alternative/protection to fixed-line
 - **More capex, not less**
- Pay-TV and fixed broadband also drivers
 - Still 10-12% of revenues each
 - 30-40% penetration

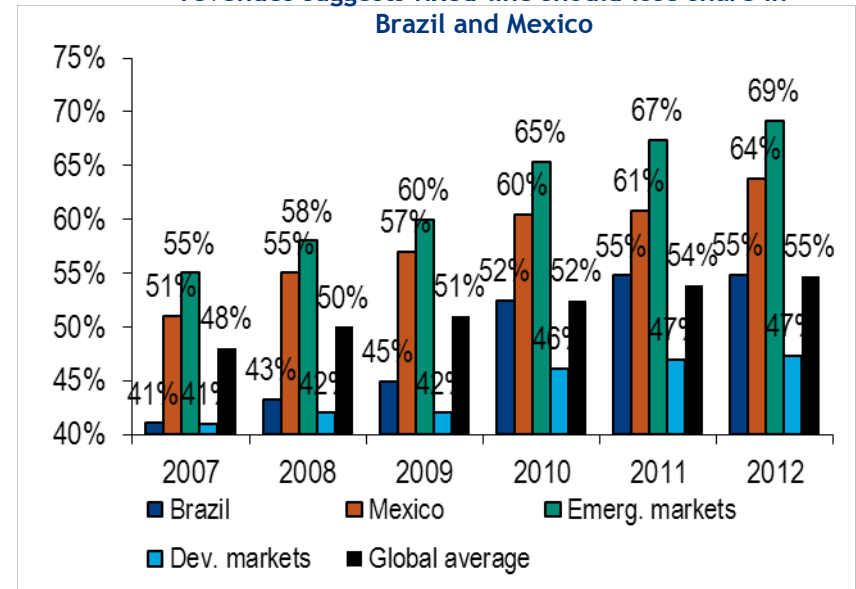


3) Regional themes, trends

3.2) F2M substitution will continue in data

- Fixed to mobile substitution weighs on fixed line
 - Wireless revenues = 55% in Brazil, 64% in Mexico
 - Going to 70% and beyond?
- Voice substitution is a given
- Data substitution a growing reality
 - Emailing, social networking
 - Photos, simple video
- Network, smartphones main barriers
 - Smartphone penetration will increase
 - Must deploy capital

Wireless service revenue share of total telco revenues suggests fixed-line should lose share in Brazil and Mexico

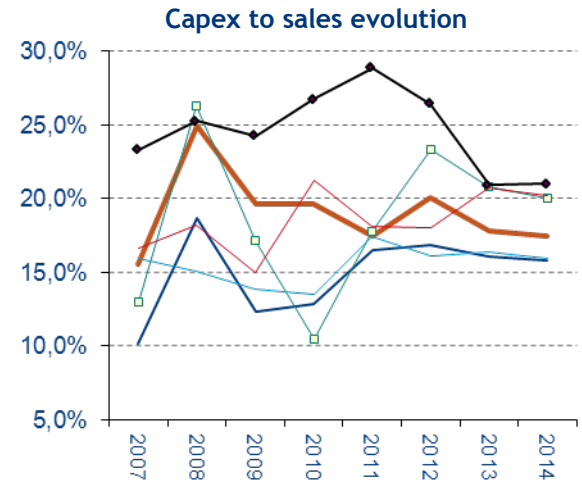


Source: Company reports and BofA Merrill Lynch Global Research

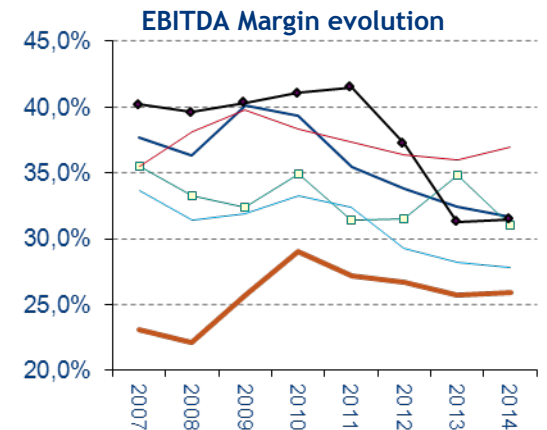
3) Regional themes, trends

3.3) Monetizing wireless data, key to returns

- Returns have been falling
 - Capex has grown faster than EBITDA (6% vs. 2% in Brazil)
 - High penetration rates limit growth
 - Capex today takes longer to be monetized
 - Capex to expand network capacity, not coverage
- Higher returns require:
 - Seems counter-intuitive, but more capital
 - Stable pricing environment (consolidation?)
 - Solid balance sheets
 - More smartphones



— AMX — TIM — Oi
— TEO — Entel — TEF



— AMX — TIM — Oi
— TEO — Entel — TEF

3) Regional themes, trends

3.4) Low returns, raising rates, leverage = M&A?

- Brazil most evident case
 - Lower margins
 - Increasing cost of capital (higher interest rates)
 - Leverage (parent companies)
 - Need to deploy (more) capital
 - TIM, GVT, Nextel
- Mexico too?
 - Margins high at AMX, not at TEF or Iusacell
 - Less competitive on high concentration
 - M&A beneficial to everyone
 - TEF, Iusacell, Megacable, Nextel
- Other cases
 - Telecom Argentina

3) Regional themes, trends

3.5) Regulation - never-ending topic

- Brazil
 - M&A - market concentration, spectrum caps
 - 700MHz auctions - price, coverage, spectrum cleaning costs, timing
 - Unbundling enforcement
- Mexico
 - AMX dominance
 - Telco reform - asymmetrical MTRs, unbundling, infrastructure sharing, 700MHz PPP
- Colombia
 - AMX dominance
 - Market share cap threats
- Chile
 - 73% MTR cut in 2014
 - Spectrum use by Nextel and VTR
- Argentina
 - More macro than telco specific

4) LatAm positioning, comps

Brazil

- NET now offering 4-play with Claro, huge network expansion plans
- Vivo expands in FTTH
- GVT expanding in São Paulo
- Oi more focused on productivity
- TIM focused on quality, infrastructure
- Nextel tries to gain 3G net-adds

Mexico

- AMX's mkt share unchanged at 70%
- Iusacell focused on gaining share
- Nextel tries to gain 3G net-adds
- Televisa to keep pay-TV dominance

Brazil TMT Overview				
Wireless Penetration	136%			
Companies	Vivo (TEF)	TIM	Claro (AMX)	Oi
Wireless market share	28.3%	26.8%	24.7%	18.4%
EBITDA Margin	30.13%	26.0%	24.2%	25.4%
ARPU	22.8	18.1	14.8	20.0
Fixed-line broadband share	18.9%	0.3%	29.2%	29.4%
Pay-TV Share	3.2%	-	53.0%	5.2%

Mexico TMT Overview				
Wireless Penetration	90%			
Companies	AMX	Iusacell	Movistar (TEF)	NIHD
EBITDA Margin	46.2%	-12.2%	17.5%	4.0%
ARPU	170	114	86	522
Fixed-line broadband share	66.8%	na	na	na
Pay-TV Share	na	na	na	na

4) LatAm positioning, comps

Colombia

- Tigo and UNE now together
- Asymmetrical MTRs in place for some time

Colombia TMT Overview			
Wireless Penetration	98%		
Companies	Movistar (TEF)	AMX	MICC
EBITDA Margin	32%	54%	22%
ARPU	16536	21983	19868
Fixed-line broadband share	na	na	na
Pay-TV Share	na	na	na

Chile

- MVNOs operating for some time already
- An MTR cut of 73% in 2014

Chile TMT Overview			
Wireless Penetration	154%		
Companies	Movistar (TEF)	Entel	AMX
EBITDA Margin	30.0%	25.9%	4.5%
ARPU	7155	9100	6007
Fixed-line broadband share	na	na	na
Pay-TV Share	18%	na	19%

4) LatAm positioning, comps

Argentina

- Arsat (state-owned) truly new player?
- Telecom Argentina - change in strategy?

Argentina TMT Overview			
Wireless Penetration	146%		
Companies	Movistar (TEF)	TEO	AMX
EBITDA Margin	23.3%	26.9%	35.7%
ARPU	65.70	64.00	51.18
Fixed-line broadband share	na	na	na
Pay-TV Share	na	na	na

Peru

- Nextel Peru, now powered by Entel Chile
- Entel should try to gain significant share

Peru TMT Overview			
Wireless Penetration	93%		
Companies	TEF	AMX	Nextel (Entel)
EBITDA Margin	35%	40%	-1%
ARPU	23.31	24.20	40.54
Fixed-line broadband share	na	na	na
Pay-TV Share	na	na	na

5) What investors are looking for

Brazil

- 1) Minimal regulatory intervention - let the market rule it, enough competition
- 2) Regulatory stability - last 18 months have been stable
- 3) Clear outlook for 700MHz - price, cost of cleaning, analog-digital migration, timing
- 4) Potential for improving returns on the back of consolidation
- 5) Lower taxes!