UNIDATA

Unidata at speed of fiber

OUTPERFORM

Current Share Price (€): 35.90

Target Price (€): 47.04

Unidata - Performance since IPO

Source: S&P Capital IQ - Note: 16/03/2020=100

Company data

ISIN number	IT0005338840
Bloomberg code	UD IM
Reuters code	UD.IM
Industry	Telecommunication
Stock market	AIM Italia
Share Price (€)	35.90
Date of Price	13/05/2021
Shares Outstanding (m)	2.4
Market Cap (€m)	87.9
Market Float (%)	18.3%
Daily Volume	1,600
Avg Daily Volume YTD	2,101
Target Price (€)	47.04
Upside (%)	31%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Unidata - Absolute (%)	28%	64%	98%
FTSE AIM Italia (%)	4%	16%	41%
1Y Range H/L (€)		37.80	13.37
YTD Change (€) / %		17.60	24.94%

Source: S&P Capital IQ

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Current trading: stock price rose outperforming the AIM Italia Index

Unidata share price gained 176% since IPO, outperforming the AIM Italia index, which rose 51% in the same period.

Brilliant financials – IAS/IFRS improve growth visibility

FY20 total revenues to €23.4m vs FY19 €13.2m (+77.4% YoY) mainly due to the fiber optic revenues jump: +73.5% YoY. The revenue recognition according to IAS/IFRS accounting standards adopted in FY20 has improved the visibility of the revenue flows.

FY20 EBITDA was €8.6m (+67.3% compared to €5.2m in FY19), with margin at 36.8% (39.0% in FY19). FY20 EBIT +134.5% YoY, with margin at 20.9% vs 15.8% in FY19. FY20 Net income was €3.4m, compared to €1.4m in FY19.

FY20 capex has been €10.2m. Net equity increase (FY20 €21.4m vs FY19 €12.3) includes IPO cash proceeds while FY19 and FY20 reserves have been restated to include an asset revaluation. Net debt, along with €3.0m of cash generated by operating activities, was offset by IPO cash in, with FY20 ending at €2.1m net cash.

Industry outlook keeps being more than positive

Our updated analysis of the industry perspective, driven by the Italian and European fiber optic full coverage initiative, and Unidata performance above expectations make us still confident of the assumptions of continuing progress on network and customer base, while the optic fiber infrastructure is a permanent competitive advantage and a barrier to entry for competitors. In the short-term, investments into fiber will increase market share and support the service offering to a larger potential customer base. On a longer horizon, partnerships are expected to sustain a further network expansion.

Target Price €47.04 per share (from €22.68), OUTPERFORM rating confirmed

Unidata is in a high growth phase along a substantial investment cycle, while continuing to dedicate resources to extend its customer base and services that should drive profitability over time. The value potential of Unidata rely on its capability to carry forward a growing backlog of infrastructure realization and management, as suggested by its remarkable performance since IPO. Our valuation on updated estimates indicates a Target Price per share of €47.04, +31% on current market price at €35.90 and +262% over the IPO price of €13.0. We confirm an OUTPERFORM rating.

Key financials and estimates

	ITA GAAP	ITA GAAP	IAS	IAS	IAS	IAS	IAS
€m	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Revenues	**10.6**	**11.5**	**13.2**	**23.4**	**30.1**	**35.4**	**41.7**
YoY %	-	*8.5%*	*14.4%*	*77.4%*	*28.5%*	*17.5%*	*17.8%*
EBITDA	**3.1**	**3.8**	**5.2**	**8.6**	**11.5**	**13.7**	**16.5**
Margin	*29.4%*	*33.2%*	*39.0%*	*36.8%*	*38.3%*	*38.8%*	*39.5%*
EBIT	**1.8**	**2.3**	**2.1**	**4.9**	**6.4**	**7.7**	**10.6**
Margin	*16.7%*	*20.0%*	*15.8%*	*20.9%*	*21.3%*	*21.8%*	*25.5%*
Net Income	**1.2**	**1.6**	**1.4**	**3.4**	**4.4**	**5.4**	**7.5**
Net Debt (Cash)	**0.2**	**1.1**	**4.5**	**(2.1)**	**(1.2)**	**(1.1)**	**(4.8)**
Equity	**4.1**	**5.7**	**12.3**	**21.4**	**25.9**	**31.2**	**38.8**

Source: Company data 2017-20A, EnVent Research 2021-23E

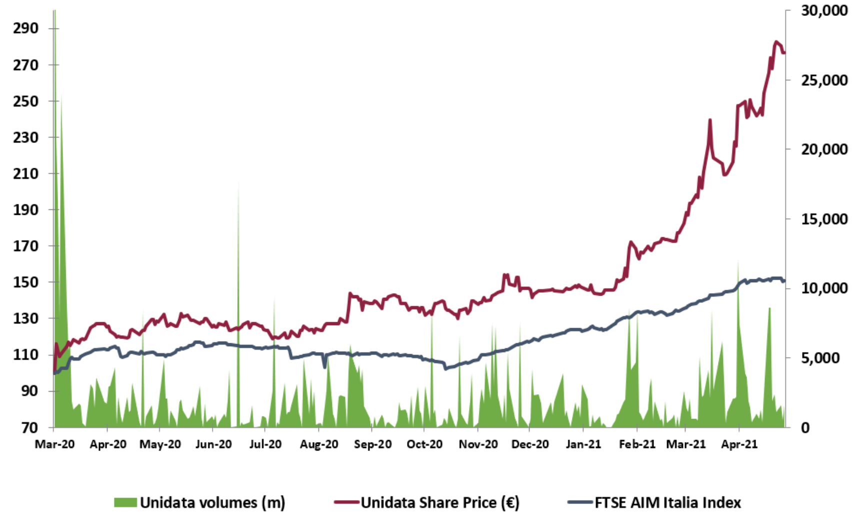
Market update

Outperforming AIM Italia Index

Unidata shares since IPO traded in the range €13.37-37.80, with an IPO price at €13.0 and ending at €35.90, 176% increase

The AIM Italia Index increased by 51%

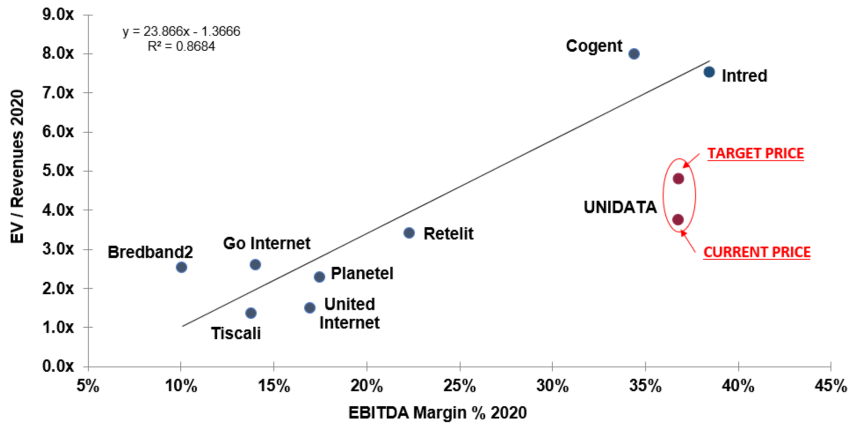
Unidata – Share price performance and trading volumes since IPO



Source: EnVent Research on S&P Capital IQ - Note: 16/03/2020=100

High correlation and consistent positioning in both charts

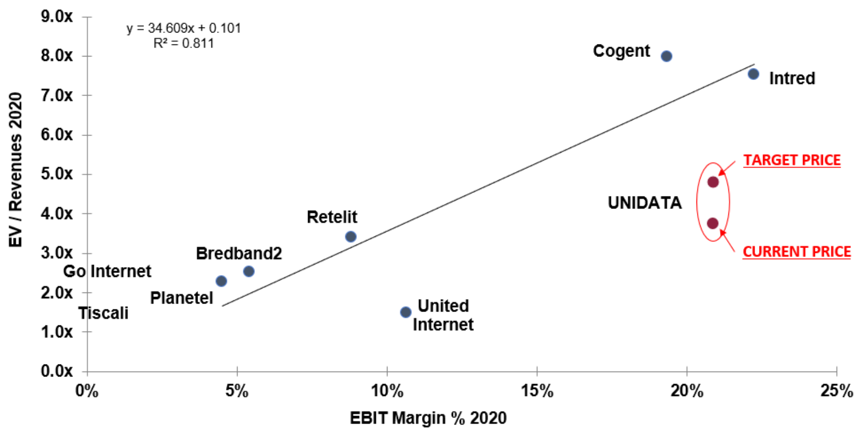
Peer group - Regression analysis on EBITDA and Unidata target positioning



Source: EnVent Research on S&P Capital IQ, May 2021

Room for getting closer to average multiples

Peer group - Regression analysis on EBIT and Unidata target positioning



Source: EnVent Research on S&P Capital IQ, May 2021 – GO Internet and Tiscali are not included for negative EBIT Margin

Restless growth in 2020, transition to IFRS depicts a brilliant financial performance and delivery of achievements

IAS/IFRS adoption since FY20 and restatement of comparative information

FY20 represents a breakthrough with respect to accounting standards and procedures of Unidata, these dealing with complex accounting of revenues and costs of different nature and cash implications. The Company transition to International Financial Reporting Standards (IAS/IFRS) implied a restatement also of FY19 financial figures.

IAS/IFRS major impacts on revenue lines regard the accounting of fiber optic network construction works and wholesale billings in IRU (Indefeasible Right of Use) mode. Along with IAS/IFRS, revenues arising from this service line will not be split anymore along the entire contract period but will become entirely revenues of the fiscal year in which the agreement/contract is subscribed. Up to 2019, the deferred portion of revenues was allocated among liabilities, as deferred income accounting.

FY20 total revenues amounted to €23.4m vs FY19 €13.2m (+77.4% YoY).
With respect to sales, FY20 vs FY19 is as follows (amounts in €m):

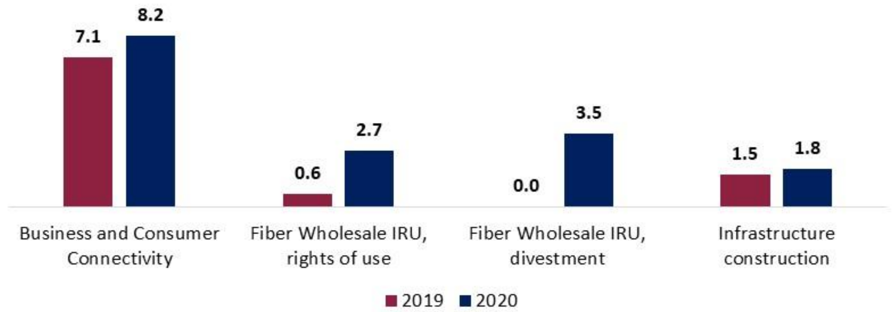
Total sales breakdown, FY20 vs FY19 (€m)

	2019	2020	*% YoY*
Total Fiber Optic revenues	9.3	16.1	*73.5%*
Total revenues connectivity and voice	1.6	1.8	*12.2%*
Total Datacenter & Cloud	1.0	1.1	*12.1%*
Total IoT & Smart solutions	0.0	0.2	*363.6%*
Various services and customer support	0.9	0.7	*-25.1%*
Sale of System net F.O. material	0.0	2.8	*n.a.*
Total Sales	**12.8**	**22.7**	***76.8%***

Source: Company data

Looking at Fiber Optic revenues breakdown, the drivers of growth were the sale of internet access (Business and Consumer Connectivity) and of IRU/Wholesale rights on fiber optic to other operators. Revenues from the construction of telecommunications infrastructure also show an increase of 15.0%.

Total Fiber Optic Revenues breakdown, FY20 vs FY19 (€m)



Source: Company data

The significant increase of fiber optic revenues is due also to the fiber optic and wholesale sale in IRU (Indefeasible Right of Use) mode, which is accounted for following IFRS 16 (entry under revenues of the gain arising from the billing for the granting of the rights and construction cost of the infrastructure).

In 2020, the Company also opted to change its policy regarding fiber materials, while in the past these materials were not accounted for as P&L directly, they are now purchased from suppliers and then sold to customers, thus determining an increase of both revenues (specific revenue line accounting to € 2.8m in FY20) and costs.
FY20 direct cost of sales amounted to €4.1m, an increase of €2.9m with respect to 2019 also affected by the change in sales and purchase of fiber materials previously highlighted. Service costs, personnel costs and other operating costs were €6.5m, €2.9m, and €1.3m respectively (€4.5m, €2.1m, and €0.3m in FY19).

FY20 EBITDA was €8.6m (+67.3% compared to €5.2m in FY19), with margin at 36.8% (39.0% in FY19). FY20 EBIT amounted to €4.9m (+134.5% compared to €2.1m in FY19), with EBIT Margin at 20.9% vs 15.8% in FY19. FY20 Net income was €3.4m, compared to €1.4m in FY19.

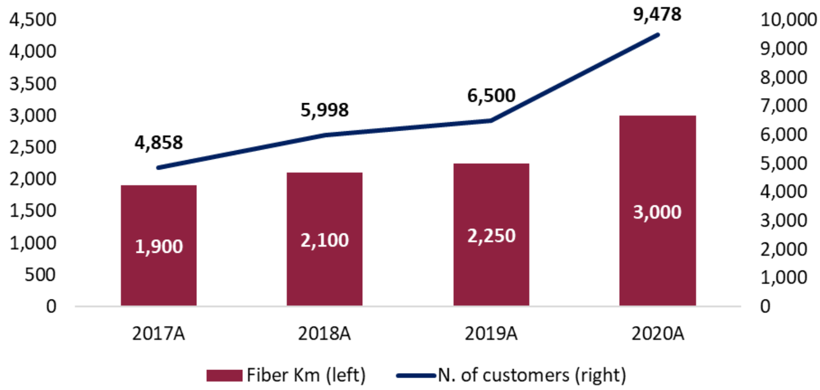
IAS/IFRS first time adoption included a €7.6m revaluation of existing proprietary fiber optic infrastructure as of January 1, 2019. FY20 capex has been €10.2m.
Within working capital, the increase in receivables is mainly related to outstanding balances from a large domestic telco operator with whom contracts are in place for the construction of a fiber optic network, cashed in at beginning 2021. Trade receivables and payables evolution in FY20 was also affected by a decrease of DSO and an increase of DPO.
Deferred income refers to IRU revenues deferral made in years before FY19 and IAS/IFRS Adoption.
Net equity increase (FY20 €21.4m vs FY19 €12.3) includes IPO cash proceeds. Net debt too, along with €3.0m of cash generated by operating activities, was offset by IPO cash in, with FY20 ending at €2.1m net cash.

Business update

FY20 confirms the remarkable growth of number of customers within the business and consumer connectivity revenue line. Year-end total customers reached 9,478, +46% YoY. The fiber optic network was extended by 735 km of proprietary cables, reaching approximately 3,000 km by the end of FY20.

2017-2020 Km of fiber +16% CAGR; customer base increased by 25% CAGR in the same period

Unidata fiber network and customer growth



Source: Company data

New Shares

On November 2020, Unidata announced the issuance of 10,250 new shares due to the first conversion “UNIDATA WARRANTS 2020-2022”.

Q121 even over 2020 growth path

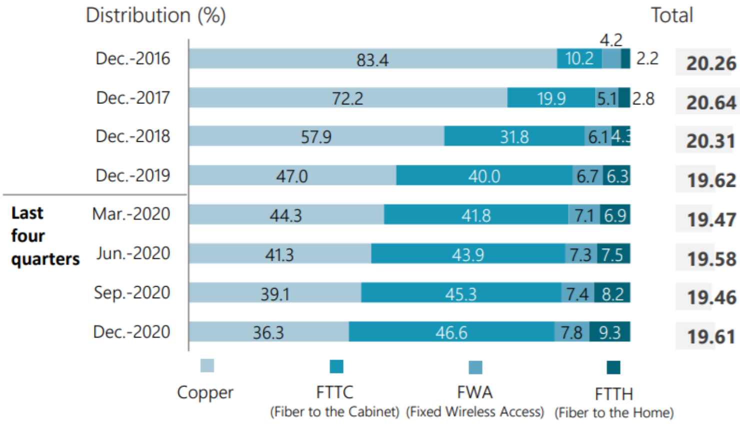
According to management accounting data:

- €7.6m revenues (+38% compared to €5.5m Q120). The increase is mainly attributable to the Fiber & Networking revenue line
- Net Cash of €3.8m (€2.1m at 2020 year-end)
- Total customers +39% vs Q120 (+10% vs 2020 year end)
- Fiber optic network at 3,350 km (over 10% increase over 2020 year-end)

Outlook: investments into fiber infrastructure keep going

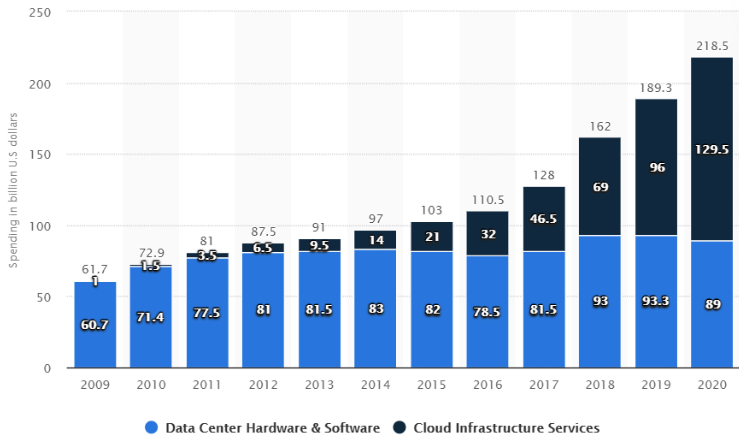
We recall that Unidata perspective is to be evaluated in view of its operations within the telecommunications industry as network infrastructure developer and Internet Service Provider, organized into three lines of business and by service offered: Fiber & Networking, Cloud & Data Centre, IoT & Smart Solutions. Unidata excellent recent performance is primarily sustained by its commitment as developer of FTTH access solutions, the fastest-growing segment in the network infrastructure thanks to a European and Italian massive investment programs.

According to Agcom (Agcom’s Quarterly Observatory on Communications n. 1 of 2021), the FTTC and FTTH lines increased with a CAGR of 46.2% and 43.4% on the observed period (2016-2020), respectively. In the same period, the weight of FTTC line increased from 10.2% of total to 46.6% and the FTTH from 2.2% of total to 9.3%. The following graph report the market evolution (FY16-20):



Source: Agcom's Quarterly Observatory on Communications n. 1 of 2021

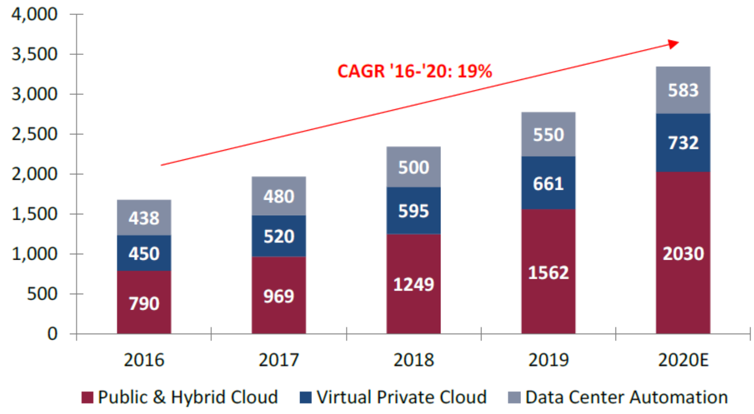
According to Statista, in 2020, enterprise spending on cloud infrastructure services amounted to almost $130bn (+35% YoY). At the same time, spending on data center hardware and software declined (-5% YoY). These numbers illustrate the ongoing trend to move to the cloud. The pandemic accelerated this shift in 2020.



Source: Statista

Italian cloud computing services have recorded a strong growth with a 2016-20 CAGR of 19%. The largest segment is Public & Hybrid cloud services, which recorded a 25% increase in 2019 and was expected to record a 30% increase in 2020; Private Cloud segment had a steady growth trend by 11% YoY in 2019-20, while Data Center Automation experienced a 6% growth in 2019 with a 10% forecast in 2020 (Source: Politecnico di Milano, Digital Innovation Observatory, 2020).

Italian cloud computing services, €m:



Source: Politecnico di Milano, Digital Innovation Observatory, 2020

In addition to evident market fast growth indicators, the 2020 Unidata figures confirm again, at the end of a difficult year for most markets and industries, our positive view for the mid-term horizon, supported by the even bigger broadband appetite in the Italian optic fiber market, more than ever triggered by the lifestyle forced changes during the pandemic.
In detail: during 2020 and Q121, revenues from all business units rose largely over our expectations, coupled with the increase of business and retail customers. For the short term we expect a further Unidata's network fiber development boosted by agreements such as the one with CEBF and possibly others.

In this framework of programmed continuing growth and to incorporate the adoption of IFRS accounting principles beginning with FY20 financial reporting, we have revised upward our projections.

Estimates revision

Based on 2020 performance which exceeded our expectations and the continuing growth path, confirmed by Q121 figures. Moreover, as previously highlighted, transition to IAS/IFRS implies several accounting changes which require a restatement of our projection model. Among such changes, the most significant is that revenues arising from IRU contracts will no longer be deferred along the contract period. A side effect of adoption of different accounting standards is that the comparability is affected and since FY19 the restated accounts and projections contain figures treated under different accounting standards.

Main 2021-23E estimates guidelines:

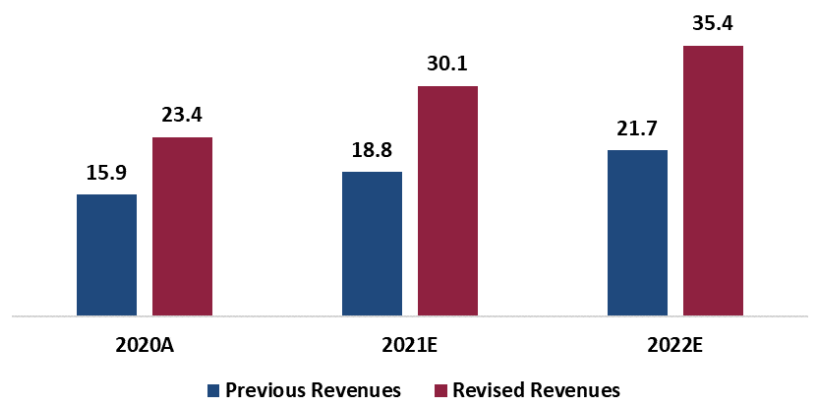
- 2021E: high visibility on target revenues, based on the residual backlog mentioned in our prior notes and on the excellent growth recorded on Q121. 2022E and 2023E driven by an additional average 10% revenue growth as a mix of new infrastructure contracts and organic growth of customer services
- Lower visibility for normalized revenues and operating profits after the explicit projection period, assumed on a more conservative side, as

suggested by the high concentration of revenues in a limited number of large contracts which could be subject to significant fluctuations

- EBITDA and EBIT assumed by carryforward of actual margins experienced in 2020 and slight improvement linked to better coverage of overheads implied in higher sales volumes
- D&A normalization according to the changed accounting standards that imply a different cost recognition for IRU revenues
- Progressive decline of deferred income
- Gradual improvement of working capital ratios, which would counterbalance deferred income decline
- 2021E capex in line with 2020 and declining in the following 2 years.

Change in estimates

Updated vs previous revenues estimates (€m)



Source: EnVent Research
Note: change in estimates also affected by transition to IAS/IFRS (previous estimates according to ITA GAAP)

	IAS/IFRS				ITA GAAP						
€m	**2020A**	**2021E**	**2022E**	**2023E**	**2020E**	**2021E**	**2022E**	**2023E**	**2020A**	**2021E**	**2022E**
Revenues	23.4	30.1	35.4	41.7	15.9	18.8	21.7	*na*	48%	60%	63%
EBITDA	8.6	11.5	13.7	16.5	5.8	7.0	8.2	*na*	48%	64%	67%
Margin	*37%*	*38%*	*39%*	*39%*	*37%*	*37%*	*38%*				
EBIT	4.9	6.4	7.7	10.6	2.7	2.5	3.7	*na*	81%	161%	108%
Margin	*21%*	*21%*	*22%*	*26%*	*17%*	*13%*	*17%*				
Net Income	3.4	4.4	5.4	7.5	1.9	1.7	2.6	*na*	77%	155%	104%
Net (Debt) Cash	2.1	1.2	1.1	4.8	8.4	13.0	16.6	*na*			
Net Debt / EBITDA	*cash*	*cash*	*cash*	*cash*	*cash*	*cash*	*cash*				

Source: EnVent Research

Financial projections

Profit and Loss

€m	ITA GAAP 2017A	ITA GAAP 2018A	IAS 2019A	IAS 2020A	IAS 2021E	IAS 2022E	IAS 2023E
Sales	10.2	11.3	12.8	19.9	26.4	31.5	37.6
Sale of System net F.O. material			0.0	2.8	2.9	3.1	3.2
Other income	0.4	0.3	0.4	0.7	0.8	0.8	0.9
Total Revenues	**10.6**	**11.5**	**13.2**	**23.4**	**30.1**	**35.4**	**41.7**
YoY %	-	*8.5%*	*14.4%*	*77.4%*	*28.5%*	*17.5%*	*17.8%*
Direct cost of sales	(1.8)	(1.5)	(1.2)	(4.1)	(5.6)	(6.7)	(8.0)
Personnel	(1.9)	(2.0)	(2.1)	(2.9)	(3.3)	(3.7)	(4.0)
Services	(3.0)	(3.1)	(4.5)	(6.5)	(8.5)	(9.9)	(11.5)
Other operating costs	(0.9)	(1.1)	(0.3)	(1.3)	(1.2)	(1.4)	(1.7)
Operating charges	**(7.5)**	**(7.7)**	**(8.1)**	**(14.8)**	**(18.6)**	**(21.7)**	**(25.2)**
EBITDA	**3.1**	**3.8**	**5.2**	**8.6**	**11.5**	**13.7**	**16.5**
Margin	*29.4%*	*33.2%*	*39.0%*	*36.8%*	*38.3%*	*38.8%*	*39.5%*
D&A	(1.4)	(1.5)	(3.1)	(3.7)	(5.1)	(6.0)	(5.8)
EBIT	**1.8**	**2.3**	**2.1**	**4.9**	**6.4**	**7.7**	**10.6**
Margin	*16.7%*	*20.0%*	*15.8%*	*20.9%*	*21.3%*	*21.8%*	*25.5%*
Interest	(0.0)	(0.0)	(0.1)	(0.1)	(0.3)	(0.2)	(0.2)
EBT	**1.8**	**2.3**	**2.0**	**4.8**	**6.2**	**7.5**	**10.4**
Margin	*16.5%*	*19.7%*	*14.9%*	*20.4%*	*20.4%*	*21.2%*	*25.0%*
Income taxes	(0.5)	(0.7)	(0.6)	(1.4)	(1.7)	(2.1)	(2.9)
Net Income	**1.2**	**1.6**	**1.4**	**3.4**	**4.4**	**5.4**	**7.5**
Net Income Margin	*11.4%*	*13.9%*	*10.6%*	*14.5%*	*14.7%*	*15.2%*	*18.0%*

Source: Company data 2017-20A, EnVent Research 2021-23E

Balance Sheet

€m	ITA GAAP 2017A	ITA GAAP 2018A	IAS 2019A	IAS 2020A	IAS 2021E	IAS 2022E	IAS 2023E
Inventory	0.6	1.3	1.4	1.0	1.7	1.9	2.3
Trade receivables	3.8	4.5	11.1	14.0	15.1	17.7	19.5
Trade payables	(3.1)	(4.0)	(3.7)	(8.6)	(10.2)	(9.6)	(8.5)
Trade Working Capital	1.3	1.8	8.9	6.4	6.6	10.1	13.3
Deferred income by IRU & others	(4.2)	(4.9)	(13.7)	(12.8)	(11.8)	(10.9)	(10.0)
Other assets (liabilities)	(0.5)	(0.7)	(5.2)	(9.1)	(9.0)	(8.8)	(9.2)
Net Working Capital	**(3.4)**	**(3.8)**	**(10.0)**	**(15.5)**	**(14.3)**	**(9.7)**	**(5.9)**
Intangible assets	4.3	4.3	7.6	8.1	7.8	7.3	6.8
Property, plant and equipment	4.0	6.8	19.6	26.0	30.7	32.1	32.9
Investments and financial assets	0.1	0.1	0.5	1.7	1.7	1.7	1.7
Non-current assets	**8.4**	**11.2**	**27.7**	**35.8**	**40.2**	**41.2**	**41.4**
Provisions	**(0.6)**	**(0.6)**	**(0.9)**	**(1.1)**	**(1.2)**	**(1.4)**	**(1.5)**
Net Invested Capital	**4.4**	**6.8**	**16.8**	**19.3**	**24.7**	**30.1**	**34.0**
Net Debt (Cash)	**0.2**	**1.1**	**4.5**	**(2.1)**	**(1.2)**	**(1.1)**	**(4.8)**
Equity	**4.1**	**5.7**	**12.3**	**21.4**	**25.9**	**31.2**	**38.8**
Sources	**4.4**	**6.8**	**16.8**	**19.3**	**24.7**	**30.1**	**34.0**

Source: Company data 2017-20A, EnVent Research 2021-23E

IPO Proceeds in FY20

Cash Flow

€m	2019A	2020A	2021E	2022E	2023E
EBIT	**2.1**	**4.9**	**6.4**	**7.7**	**10.6**
Current taxes	(0.6)	(1.4)	(1.7)	(2.1)	(2.9)
D&A	3.1	3.7	5.1	6.0	5.8
Cash flow from P&L operations	**4.8**	**7.4**	**10.0**	**11.8**	**13.7**
Trade Working Capital	(7.0)	2.5	(0.2)	(3.5)	(3.2)
Deferred income by IRU & others	8.8	(0.9)	(0.9)	(0.9)	(0.9)
Other assets and liabilities	4.5	3.9	(0.1)	(0.2)	0.3
Capex	(14.0)	(9.9)	(9.5)	(7.0)	(6.0)
Operating cash flow after working capital and capex	**(2.9)**	**3.0**	**(0.7)**	**0.2**	**3.9**
Interest	(0.1)	(0.1)	(0.3)	(0.2)	(0.2)
Investments and financial assets	(0.4)	(1.2)	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Paid-in capital	0.0	0.0	0.0	0.0	0.0
Capex - IPO cost	0.0	(0.8)	0.0	0.0	0.0
IPO proceeds	0.0	5.7	0.0	0.0	0.0
Net cash flow	**(3.4)**	**6.6**	**(0.9)**	**(0.1)**	**3.7**
Net Debt (Beginning)	(1.1)	(4.5)	2.1	1.2	1.1
Net Debt (End)	(4.5)	2.1	1.2	1.1	4.8
Change in Net Debt (Cash)	**(3.4)**	**6.6**	**(0.9)**	**(0.1)**	**3.7**

Source: Company data 2017-20A, EnVent Research 2021-23E

Ratio analysis

KPIs	2017A	2018A	2019A	2020A	2021E	2022E	2023E
ROE	29%	28%	11%	16%	17%	17%	19%
ROS (EBIT/Revenues)	17%	20%	16%	21%	21%	22%	26%
ROIC (NOPAT/Invested Capital)	n.a.	24%	9%	18%	19%	18%	23%
DSO	107	117	252	179	150	150	140
DPO	165	208	185	215	200	160	120
DOI	20	42	39	15	20	20	20
TWC/Revenues	12%	16%	67%	27%	22%	28%	32%
Capex/Revenues	n.a.	37%	106%	42%	32%	20%	14%
Net Debt / EBITDA	0.1x	0.3x	0.9x	-0.2x	-0.1x	-0.1x	-0.3x
Net Debt / Equity	0.1x	0.2x	0.4x	-0.1x	0.0x	0.0x	-0.1x
Cash flow from P&L operations / EBITDA			94%	86%	86%	86%	83%
FCF / EBITDA			-55%	35%	-6%	1%	23%
Earnings per Share (€)	0.49	0.65	0.57	1.38	1.81	2.20	3.07

Source: Company data 2017-20A, EnVent Research 2021-23E

Valuation

We have conducted the valuation by updating our DCF model with revised projections and by updating our analysis of peers performance and multiples.

Unidata has recorded an excellent progression of market performance from IPO to date, supported by matching and exceeding revenue estimates and infrastructure expansion perspectives. We have updated and diversified our regression analysis by EBITDA and EBIT as operating profit metrics. The purpose is to collect a more comprehensive set of information, given the inherent diversity of scope of services, market and financial performance and accounting standards among the companies selected to compose the reference segment. The addition of EBIT is due to the hybrid revenue accounting that has effect on Unidata financial reporting and will continue for the mid-term until deferred income on total revenues would become immaterial. We note that Unidata positioning is consistently among the best performers in both cases and that implied multiples are among the most rewarding within the peer group.

Notwithstanding the substantial differences with peers, we deem such analysis as overall reliable and, considering that higher multiples typically reflect market consensus on lower risk, high margins and expected growth potential, even regardless of contingent performance, we would conclude that to date Unidata has more than delivered on its promises in a short period of time. Our interpretation of the above include also a prudence element, since the present very favorable market perspective, thanks to the European governments' commitment to acceleration of broadband gap coverage, might be the peak of an investment cycle that could be subject to entry of new players and capitals. This could generate additional opportunities as well as other scenarios. For these reasons we believe that we should exercise judgement and care in finding a balance among various mid-term scenarios, the growth expectations and the mentioned inherent risk of revenue concentration in a limited number of large contracts.
We count on 2021E and especially 2022E sales development to design a clearer picture of normalized and balanced operation perspective.

We conclude that market multiple value calculations, as long as they are sufficiently consistent with the DCF values in the two scenarios, contribute to confirming reliability of results and to the quality of information available to investors.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, May 2021)
- Market return: 12.6% (3Y average. Source: Bloomberg, May 2021)
- Market risk premium: 11.1%
- Beta: 0.8 (Median of selected comparable companies. Source: Bloomberg, May 2021)
- Cost of equity: 10.4%
- Cost of debt: 3.0%
- Tax rate: 24% IRES
- 25% debt/(debt + equity) as target capital structure
- WACC calculated at 8.4%, according to above data
- Perpetual growth rate at 2.0%
- Terminal Value assumes a 35% EBITDA margin

DCF Valuation

€m		2019A	2020A	2021E	2022E	2023E	Perpetuity
Revenues		**13.2**	**23.4**	**30.1**	**35.4**	**41.7**	**35.0**
EBITDA		**5.2**	**8.6**	**11.5**	**13.7**	**16.5**	**12.3**
Margin		*39.0%*	*36.8%*	*38.3%*	*38.8%*	*39.5%*	*35.0%*
EBIT		**2.1**	**4.9**	**6.4**	**7.7**	**10.6**	**9.3**
Margin		*15.8%*	*20.9%*	*21.3%*	*21.8%*	*25.5%*	*26.4%*
Taxes		(0.6)	(1.4)	(1.8)	(2.2)	(3.0)	(2.6)
NOPAT		**1.5**	**3.5**	**4.6**	**5.6**	**7.7**	**6.7**
D&A		3.1	3.7	5.1	6.0	5.8	3.0
Provisions		0.3	0.2	0.2	0.1	0.1	0.0
Cash flow from P&L operations		**4.8**	**7.5**	**9.9**	**11.7**	**13.6**	**9.7**
Trade Working Capital		(7.0)	2.5	(0.2)	(3.5)	(3.2)	2.1
Deferred income by IRU & others		8.8	(0.9)	(0.9)	(0.9)	(0.9)	0.0
Other assets and liabilities		4.5	3.9	(0.1)	(0.2)	0.3	0.0
Capex		(19.1)	(10.6)	(9.5)	(7.0)	(6.0)	(3.0)
Unlevered free cash flow		**(8.1)**	**2.3**	**(0.7)**	**0.1**	**3.8**	**8.8**
WACC	8.4%						
Long-term growth (G)	2.0%						
Discounted Cash Flows			**2.3**	**(0.7)**	**0.1**	**3.0**	
Sum of Discounted Cash Flows	2.4						
Terminal Value							**140.9**
Discounted TV	110.7						
Enterprise Value	**113.1**						
Net Cash as of 31/12/20	2.1						
Equity Value	**115.2**						

DCF - Implied multiples	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/Revenues	9.8x	8.6x	4.8x	3.8x	3.2x	2.7x
EV/EBITDA	29.5x	21.9x	13.1x	9.8x	8.2x	6.9x
EV/EBIT	49.1x	54.2x	23.1x	17.6x	14.6x	10.6x
P/E	72.0x	82.3x	34.0x	26.0x	21.4x	15.3x

Source: EnVent Research

We note that 2021E implied multiples indicate a step forward average selected peers metrics, as seen in a market multiples and regression analyses.

Target Price

The DCF model applied to our estimates yields a target price of €47.04 per share from €22.68 of our previous note, with a potential upside of 31% on the current share price. As a consequence, we confirm our OUTPERFORM rating on the stock.

Unidata Price per Share	**€**
Target Price	47.04
Current Share Price (13/05/2021)	35.90
Premium (Discount)	**31%**

Source: EnVent Research

Please refer to important disclosures at the end of this report.

Annex

Peer Group - Market Multiples

Company	EV/Revenues				EV/EBITDA				EV/EBIT				P/E			
	2019	2020	2021E	2022E	2019	2020	2021E	2022E	2019	2020	2021E	2022E	2019	2020	2021E	2022E
Italian Telco peers																
Intred	3.8x	7.5x	6.6x	5.4x	9.3x	19.6x	16.4x	13.2x	14.0x	33.8x	27.2x	21.9x	20.5x	45.0x	36.6x	29.5x
Go Internet	5.3x	2.6x	na	na	19.3x	18.3x	na	na	neg	neg	na	na	neg	neg	na	na
Planetel	0.4x	2.3x	2.0x	1.7x	2.8x	12.9x	8.7x	6.6x	10.8x	50.3x	30.2x	14.2x	nm	37x	48.8x	20.9x
Retelit	3.2x	3.4x	3.0x	2.8x	8.0x	15.3x	8.9x	8.2x	23.7x	38.7x	22.6x	18.7x	24.0x	27.2x	21.6x	21.6x
Average	**3.2x**	**3.9x**	**3.9x**	**3.3x**	**9.9x**	**16.5x**	**11.3x**	**9.3x**	**16.2x**	**40.9x**	**26.7x**	**18.2x**	**22.3x**	**36.3x**	**35.7x**	**24.0x**
Median	**3.5x**	**3.0x**	**3.0x**	**2.8x**	**8.7x**	**16.8x**	**8.9x**	**8.2x**	**14.0x**	**38.7x**	**27.2x**	**18.7x**	**22.3x**	**36.6x**	**36.6x**	**21.6x**
International Telco peers																
United Internet	1.6x	1.5x	1.4x	1.4x	7.3x	8.7x	6.3x	6.1x	10.4x	13.8x	10.3x	10.1x	13.6x	21.7x	13.7x	13.7x
Bredband2 i Skandinavien	1.1x	2.5x	1.3x	1.2x	10.3x	25.0x	10.2x	9.3x	15.1x	46.5x	15.8x	na	22.7x	62.8x	19.2x	19.2x
Cogent Communications	6.9x	8.0x	7.4x	7.0x	20.3x	23.2x	19.0x	17.6x	36.7x	41.2x	38.1x	33.2x	79.7x	nm	71.7x	71.7x
Average	**3.2x**	**4.0x**	**3.4x**	**3.2x**	**12.6x**	**19.0x**	**11.9x**	**11.0x**	**20.7x**	**33.9x**	**21.4x**	**21.7x**	**38.7x**	**42.3x**	**34.9x**	**34.9x**
Median	**1.6x**	**2.5x**	**1.4x**	**1.4x**	**10.3x**	**23.2x**	**10.2x**	**9.3x**	**15.1x**	**41.2x**	**15.8x**	**21.7x**	**22.7x**	**42.3x**	**19.2x**	**19.2x**
Full sample																
Average	**3.2x**	**4.0x**	**3.6x**	**3.2x**	**11.0x**	**17.6x**	**11.6x**	**10.2x**	**18.5x**	**37.4x**	**24.0x**	**19.6x**	**32.1x**	**38.7x**	**35.3x**	**29.4x**
Median	**3.2x**	**2.6x**	**2.5x**	**2.2x**	**9.3x**	**18.3x**	**9.6x**	**8.7x**	**14.6x**	**40.0x**	**24.9x**	**18.7x**	**22.7x**	**36.6x**	**29.1x**	**21.3x**
UNIDATA	**n.a.**	**3.7x**	**2.8x**	**3.2x**	**n.a.**	**10.1x**	**8.8x**	**8.7x**	**n.a.**	**17.8x**	**18.1x**	**18.1x**	**n.a.**	**45.1x**	**26.4x**	**26.4x**
UNIDATA - EnVent ResearchTarget Price and Updated Estimates	**n.a.**	**4.8x**	**3.8x**	**3.2x**	**n.a.**	**13.1x**	**9.8x**	**8.2x**	**n.a.**	**23.1x**	**17.6x**	**14.6x**	**n.a.**	**34.0x**	**26.0x**	**21.4x**

Source: S&P Capital IQ, May 2021

Investment case

Company

Unidata S.p.A. is an Italian local provider of ultra-broadband connectivity services to corporate and residential customers, with over 3,300 km of FTTH optic fiber network covering Rome. Over half of the infrastructure is owned by the Company, while the rest is available indirectly through Indefeasible Right of Use (IRU) agreements, a type of telco lease contract where other operators purchase the infrastructure right of use. Unidata has an ongoing partnership with a domestic infrastructure developer for the further optic fiber coverage of the Rome and surrounding urban area through two IRU long-term agreements (up to 15 years). Unidata is expanding its offer into integrated communication and cloud computing services through a proprietary data center which offers IaaS and SaaS cloud, co-location, and hosting services.

Drivers

Industry drivers

Connectivity and convergence of emerging technologies. In Huawei's Global Connectivity Index study, most of the countries in the rankings saw their scoring improved, based on indicators that cover five technology enablers: foundation, broadband, cloud, Internet of Things, Artificial Intelligence. Emerging technologies such as broadband, cloud, IoT and AI are converging, disrupting established business models and accelerating economic growth.

Broadband evolution calls for new expansion cycles in Europe. According to the European Commission, 99.9% of EU households had access to fixed or mobile broadband access technologies at the end of June 2018. The availability of fixed broadband services in the EU reached 96.7% households. Next Generation Access technologies call for continuous investment even in well-covered areas, that is becoming the rule and a recurring driver for infrastructure investment in the industry. Next Generation Access services were available to 83.1% of EU households. Rural broadband coverage continued to be lower than national coverage across EU Member States. 87.4% of rural EU homes were passed by at least one fixed broadband technology and just 52.3% had access to high-speed next generation services. Overall DSL remained the dominant fixed access technology in EU, passing 92.2% of homes. These gaps will continue to be created and closed-off periodically. (Source: European Commission, *Broadband coverage in Europe 2018*)

Broadband in Italy. By 2022 Italy will be equipped with nationwide outlaid uniform broadband technology, closing off the competition gap with major industrial economies.
The Open Fiber wholesale-only venture of Italian utility Enel and state-owned lender CDP is running its plan to invest €6.5bn to build out a Fiber-To-The-Home network in 270 major cities rolling out broadband cable, in areas witnessing digital divide, all over the country (Source: OpenFiber.it).

5G's rapid rollout. Huawei expects a spike in global growth if the introduction of 5G follows the patterns of previous wireless networks. It took seven years for 3G to reach 10% of the global market and six years for 4G; Huawei estimates 5G to reach the 10% tipping point in four years (Source: Huawei, *Global Connectivity Index*, 2019). 5G starts with some advantages: 5G-ready devices, semiconductors, and routers already available. According to European Commission, a commercial rollout of the next-generation wireless network technology in at least one major city in each European Union member state is expected by 2020.

Internet of Things riding the wave. Internet of Things connects devices such as everyday consumer objects and industrial equipment into the internet, enabling information gathering and management of devices via software increasing efficiency, allowing for new services, and achieving health, safety, or environmental benefits. IoT is emerging as the third wave of internet development, impacting individuals' lives, workplace productivity and overall consumption.

The Cloud: a cutting-edge industry. Cloud services provide IT resources from remote sources and bring them directly to the user. Cloud computing adoption has been increasing rapidly, with spending expected to grow at over 6x the rate of general IT spending through 2020, according to McKinsey. However, despite overall increased cloud investment, enterprise cloud adoption is maturing slowly and the average enterprise has achieved less than 20% public or private cloud adoption, as such, room for growth is still huge (Source: McKinsey, *Cloud adoption to accelerate IT modernization*, 2018).

Company drivers

Scalable and repeatable business model, short payback period. Revenues are driven by the proprietary infrastructure and number of customers. Network expansion drives access to subscriber growth and additional revenues. According to management, the initial investment for the roll-out of the infrastructure network has a payback period of 2 years, after that cash generation becomes significant. The optic fiber infrastructure is a permanent competitive advantage and a barrier to entry for competitors.

Visibility of revenues. Unidata has a visible and recurring revenue stream coming from ultra-broadband fiber to corporate customers. In addition, also the IRU agreements provide high visibility of the top-line.

Growing customer base and focused service portfolio. The number of customers over the last four years has increased from less than 5,000 to over 10,000. The customer base is diversified across SMEs, Public Administration, Wholesale and Retail customers. The service portfolio is made of integrated communication and cloud services.

Proprietary data center for cloud services. Unidata owns a 800sqm data center used to offer public, private and hybrid cloud, co-location for disaster recovery and hosting services.

Investments rationale to keep up with technology developments. The telco industry requires a constant amount of investments in infrastructure. Unidata has a soundtrack record of infrastructure investment to gain additional market share whose financing has been covered by the operating cash flow.

Industry partnerships. Unidata has entered into a partnership with a network developer for the further optic fiber coverage of the Rome and surrounding urban area, targeting to reach additional 200,000 real estate units.
Another partnership has been established with Connecting Europe Broadband Fund (CEBF) for the realization of open-access FTTH assets in so called grey areas (where FTTH additional coverage is planned), reaching 100,000 households and 5,000 offices.

Challenges

Market competitiveness and barriers to entry. The fragmented competitive arena, populated by a small number of large national players, together with many small local/regional players, is a permanent feeder of fierce competition and pressure on prices.

The number of customers and churn rate may fluctuate and cause volatility. The customer base is Unidata's most valuable asset which can increase its value and turnover over time, but it has also the potential to cause greater risk and volatility. A possible risk resides in the rate at which Unidata can attract and retain customers.

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Date	Recommendation	Target Price (€)	Share Price (€)
29/04/2020	OUTPERFORM	19.95	16.50
20/10/2020	OUTPERFORM	22.68	17.70
13/05/2021	OUTPERFORM	47.04	35.90

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