



Rating
Buy

North America
United States
TMT
Data Networking

Company
Commscope

Reuters Bloomberg Exchange Ticker
COMM.OQ COMM US NMS COMM

Date
1 August 2018

Forecast Change

Price at 31 Jul 2018 (USD)	32.11
Price Target	40.00
52-week range	41.04 - 27.59

FY19+ Product Cycle Story; BUY; \$40 PT; Q2 Results

DB View: We maintain conviction in our call around COMM near a Cyclical Bottom and setup for improving fundamentals in FY19+, levered to multi-year product cycles in 5G Antenna Solutions and in Carrier + Data Center Fiber Network Connectivity [refer to our 7/25/18 COMM note for detailed color].

We call out 5G Metro and Small Cell rollouts and Cloud Data Center Fiber Connectivity as mid to longer-term TAM expansion drivers and multiple expansion catalysts.

We note COMM is trading at a discount multiple (~11x P/E on DB FY20E of \$3.00) versus ~17-18x networking peers.

While FirstNet spending and network buildout activity could moderate during the back half (we note FirstNet rollouts saw a stronger-than-expected front half), we do not anticipate potential for modest slow down in FirstNet activity to be a meaningful headwind to our mid-single-digit modeled view for COMM's Mobility business during Q4 FY18 and heading into 1H19.

On the M&A front, management is likely to focus on acquisitions in the \$100s of million range versus transformative deals, given balance sheet constraints.

We remain with our BUY rating.

Our \$40 Price Target is a modest ~13x P/E on DB FY20E of \$3.00 EPS View.

We refer clients to our COMM Proprietary Segment Growth Model view in Figures 1-2.

We assert our conviction on product-cycle-driven fundamental improvement in our updated FY18-21 Top Line and Earnings estimates, summed below.

DB Published Model Estimate Revisions

Our updated revenue and pro forma EPS estimates are summed below:

Q3 FY18 was \$1.22B and 67c, is \$1.22B and 67c

Q4 FY18 was \$1.20B and 65c, is \$1.19B and 63c

FY18 was \$4.77B and \$2.45, is \$4.77B and \$2.47 (~4.5% Top Line; ~16% EPS growth)

Valuation & Risks

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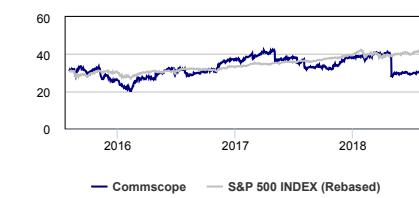
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Key changes

EPS (USD)	1.23 to 1.20	↓	-2.7%
Revenue (USDm)	4,769 to 4,766	↓	-0.1%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	9.9	-16.0	-12.7
S&P 500 INDEX	3.6	6.4	14.0

Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USDm)	6,173.6
Shares outstanding (m)	192.3
Free float (%)	100
Volume (31 Jul 2018)	1,137,486
Option volume (und. shrs., 1M avg.)	-

Source: Deutsche Bank



FY19 was \$5.00B and \$2.65, is \$5.00B and \$2.70 (~5.0% Top Line; ~9% EPS growth)
FY20 was \$5.27B and \$2.95, is \$5.27B and \$3.00 (~5.3% Top Line; ~11% EPS growth)
FY21 was \$5.56B and \$3.25, is \$5.56B and \$3.30 (~5.5% Top Line; ~10% EPS growth)

Note: Full financials in our Detailed Published Model, available to clients upon request.

Q2 FY18 EPS Highlights

COMM reported better-than-anticipated revenues and pro forma EPS in Q2: \$1.24B / 68c versus FactSet consensus: \$1.23B / 65c.

Growth in North America and EMEA was slightly offset by lower sales in APAC in Q2. COMM noted Robust Service Provider spending, driven by demand for network densification, virtualization, optimization, etc.

Orders came in at \$1.2B; Book-to-bill ratio in the quarter was 0.97x.

Slightly light Q3 Top Line and EPS guide at the midpoint: \$1.19B to \$1.24B / 63c to 68c versus \$1.23B / 66c.

COMM reaffirmed their FY18 outlook: \$4.675B to \$4.825B / \$2.33 to \$2.48 versus consensus for \$4.75B / \$2.38.

EPS Call Highlights below:

- **Mobility Solutions** was better than feared: \$499.4M versus consensus for \$495.6M. We highlight double-digit growth in North America, partly offset by pricing and currency headwinds.

On the International front, growth in Latin America and EMEA was offset by APAC declines.

- **Connectivity Solutions** was stronger than anticipated: \$740.5M versus \$724.4M. North America market strength drove mid-single-digit Outdoor Solutions growth ("gaining momentum" heading into the back half of the year).

Management noted modest Indoor Fiber growth, offset by Copper declines.

- **FirstNet Update:** COMM called out robust FirstNet spending in Q2.

That said, the company anticipates moderating FirstNet-related investments in 2H18.

This is primarily attributable slower spending, following recent buildouts - strategic decisions on future investment yet to be made by the Carriers, according to COMM management.

- **OneCell Update:** COMM highlighted accelerated trials with 2 large Carriers. Further, management noted "revenue generating" opportunities in Europe and their first enterprise sale of the OneCell Product.



- **Margins:** Non-GAAP adjusted operating margin: 20.3% versus consensus 19.3%. Connectivity Solutions was 19.3%; Mobility Solutions was 21.7%.

Other Key Metrics: During Q2, COMM generated ~\$100M in cash from operations, and ended the quarter with ~\$546M in cash and cash equivalents.

Valuation and Risks

Our \$40 Price Target (implies ~13x P/E on DB FY20E of \$3.00) reflects our updated FY18-21 revenue and EPS estimates. Our \$40 PT is derived using DCF {10.5% WACC; 6% LT growth rate} - our primary valuation method.

Key risks: 1) Volatility in carrier capex and network rollout cycles; 2) Customer concentration risks; 3) Unanticipated share shifts versus peers.

Year End Dec 31	2017A		2018E		2019E	
	Actual	FAS123R	Proforma	FAS123R	Proforma	
1Q EPS	0.17	0.17A	0.49A	0.26	0.56	
2Q EPS	0.28	0.34A	0.68A	0.43	0.73	
3Q EPS	0.26	0.36	0.67	0.43	0.72	
4Q EPS	0.27	0.32	0.63	0.40	0.70	
FY EPS (USD)	0.98	1.20	2.47	1.52	2.70	
Revenue (USDm)	4,560.6	4,766.1	—	5,004.5	—	

Source: Deutsche Bank estimates, company data



COMM Segment Model [DB View]

Figure 1: COMM Segment Model Summary (Part 1 of 2)

<i>All figures in \$M; Except Ratios</i>					
Summary of COMM's Segment Revenue Model - (DB View)					
	FY18E	FY19E	FY20E	FY21E	FY18E-FY21E CAGR
I) Connectivity Solutions Revenues					
I.A) Fiber Optic Cable Solutions Revenues (I.A.i + I.A.ii)	\$1,502	\$1,676	\$1,884	\$2,118	12%
Growth (Y/Y)	8.1%	11.6%	12.4%	12.4%	
as % of Connectivity Solutions Revenues (DB View)	51.9%	55.7%	59.6%	63.4%	
as % of Total Revenues	31.5%	33.5%	35.7%	38.1%	
I.A.i) Service Provider - Revenues	\$942	\$1,068	\$1,212	\$1,379	14%
Growth (Y/Y)	9.6%	13.4%	13.5%	13.8%	
as % of Fiber Optic Cable Solutions Revenues (DB View)	62.7%	63.7%	64.3%	65.1%	
as % of Connectivity Solutions Revenues	32.6%	35.5%	38.4%	41.2%	
I.A.ii) Enterprise - Revenues (I.A.ii.a + I.A.ii.b)	\$560	\$608	\$672	\$739	10%
Growth (Y/Y)	5.8%	8.5%	10.6%	10.1%	
as % of Fiber Optic Cable Solutions Revenues (DB View)	37.3%	36.3%	35.7%	34.9%	
as % of Connectivity Solutions Revenues	19.4%	20.2%	21.3%	22.1%	
I.A.ii.a) Cloud Providers (Hyperscale, Multi-tenant,etc) - Revenues	\$64	\$103	\$160	\$222	51%
Growth (Y/Y)	34.7%	60.0%	55.0%	39.1%	
as of Enterprise Revenues	11.5%	16.9%	23.7%	30.0%	
as % of Fiber Optic Cable Solutions Revenues (DB View)	4.3%	6.1%	8.5%	10.5%	
as % of Connectivity Solutions Revenues	2.2%	3.4%	5.0%	6.6%	
I.A.ii.b) Other Enterprise Revenues	\$496	\$505	\$512	\$517	1%
Growth (Y/Y)	2.9%	1.8%	1.5%	1.0%	
as of Enterprise Revenues	88.5%	83.1%	76.3%	70.0%	
as % of Fiber Optic Cable Solutions Revenues (DB View)	33.0%	30.1%	27.2%	24.4%	
as % of Connectivity Solutions Revenues	17.1%	16.8%	16.2%	15.5%	
I.B) Copper Cable Solutions Revenues	\$1,392	\$1,332	\$1,276	\$1,225	-4%
Growth (Y/Y)	-2.1%	-4.2%	-4.3%	-4.0%	
as % of Connectivity Solutions Revenues	48.1%	44.3%	40.4%	36.6%	
as % of Total Revenues	29.2%	26.6%	24.2%	22.0%	
I) Connectivity Solutions Revenues (I.A + I.B)	\$2,894	\$3,008	\$3,160	\$3,343	5%
Growth (Y/Y)	3.0%	4.0%	5.0%	5.8%	
as % of Total Revenues	60.7%	60.1%	59.9%	60.1%	

Source: Deutsche Bank Estimates



Figure 2: COMM Segment Model Summary (Part 2 of 2)

<i>All figures in \$M; Except Ratios</i>					
Summary of COMM's Segment Revenue Model - (DB View)					
	FY18E	FY19E	FY20E	FY21E	FY18E-FY21E
					CAGR
II) Mobility Solutions Revenues					
II.A) Macro Cell Site Solutions Revenues	\$1,358	\$1,457	\$1,552	\$1,641	6%
Growth (Y/Y)	8.3%	7.3%	6.5%	5.7%	
as % of Mobility Solutions Revenues (DB View)	72.5%	73.0%	73.5%	74.0%	
as % of Total Revenues	28.5%	29.1%	29.4%	29.5%	
II.B) Metro, DAS and Small Cell Solutions Revenues (II.B.i + II.B.ii)	\$514	\$539	\$560	\$576	4%
Growth (Y/Y)	3.6%	5.0%	3.8%	2.8%	
as % of Mobility Solutions Revenues (DB View)	27.5%	27.0%	26.5%	26.0%	
as % of Total Revenues	10.8%	10.8%	10.6%	10.4%	
II.B.i) 5G Antenna Solutions - Metro and Small Cells	\$65	\$133	\$180		NA
Growth (Y/Y)		105.5%	36.1%		
as % of Metro, DAS & Small Cell Solutions Revenues		4.4%	8.5%		
as % of Mobility Solutions Revenue		3.2%	6.3%		
II.B.ii) 4G and Other Technologies Metro, DAS and Small Cell Revenues	\$514	\$475	\$427	\$395	-8%
Growth (Y/Y)	-7.6%	-10.0%	-7.5%		
as % of Metro, DAS & Small Cell Revenues	37.8%	32.6%	27.6%	24.1%	
as % of Mobility Solutions Revenue	27.5%	23.8%	20.2%	17.8%	
II) Mobility Solutions Revenues (II.A + II.B)	\$1,872	\$1,996	\$2,112	\$2,217	6%
Growth (Y/Y)	6.9%	6.6%	5.8%	5.0%	
as % of Total Revenues	39.3%	39.9%	40.1%	39.9%	
Total Revenues (I + II)	\$4,766	\$5,005	\$5,271	\$5,560	5%
Growth (Y/Y)	4.5%	5.0%	5.3%	5.5%	

Source: Deutsche Bank Estimates



Valuation and Risks

Our \$40 Price Target (implies ~13x P/E on DB FY20E of \$3.00) reflects our updated FY18-21 revenue and EPS estimates.

Our \$40 PT is derived using DCF analysis (WACC of 10.5%; 6% perpetual growth rate) - our primary valuation method.

Figure 3 summarizes our valuation snapshot of COMM based on our updated FY18-21 revenue and EPS estimates.

Figure 3: COMM Valuation Snapshot

	Pro Forma				GAAP			
	FY18E	FY19E	FY20E	FY21E	FY18E	FY19E	FY20E	FY21E
Target Price	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
EPS - Diluted	\$2.47	\$2.70	\$3.00	\$3.30	\$1.20	\$1.52	\$1.95	\$2.43
P/E	16.2x	14.8x	13.3x	12.1x	33.5x	26.3x	20.5x	16.5x
EV Ratios on Target Price								
	FY18E	FY19E	FY20E	FY21E				
Target Price	40.0	40.0	40.0	40.0				
Number of Shares	195,554	197,111	198,911	200,711				
Market Capitalization	7,822,170	7,884,440	7,956,440	8,028,440				
Add: Net Debt/(Cash)	3,433,921	2,886,264	2,273,670	1,634,437				
Add: Non-controlling Interests	-	-	-	-				
Less: Long-term Investments	-	-	-	-				
Enterprise Value (EV)	11,256,091	10,770,704	10,230,110	9,662,877				
EV/ Sales	2.4x	2.2x	1.9x	1.7x				
EV/ FCFF	16.8x	15.2x	13.3x	12.2x				
EV/ FCFE	108.2x	23.5x	19.6x	17.6x				
FCFE Yield	1.3%	5.8%	6.6%	6.8%				

Source: Deutsche Bank

Risks

1. Volatility in carrier capex and network rollout cycles;
2. Customer concentration risks;
3. Changing technological trends and customer demand trends;
4. Negative impact from product mix impacting gross margins;
5. Share loss and design win loss in Fiber Connectivity solutions to GLW, etc.



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Commscope	COMM.OQ	32.11 (USD) 31 Jul 2018	2, 7, 8, 14, 15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB002>. Investors are strongly encouraged to review this information before investing.

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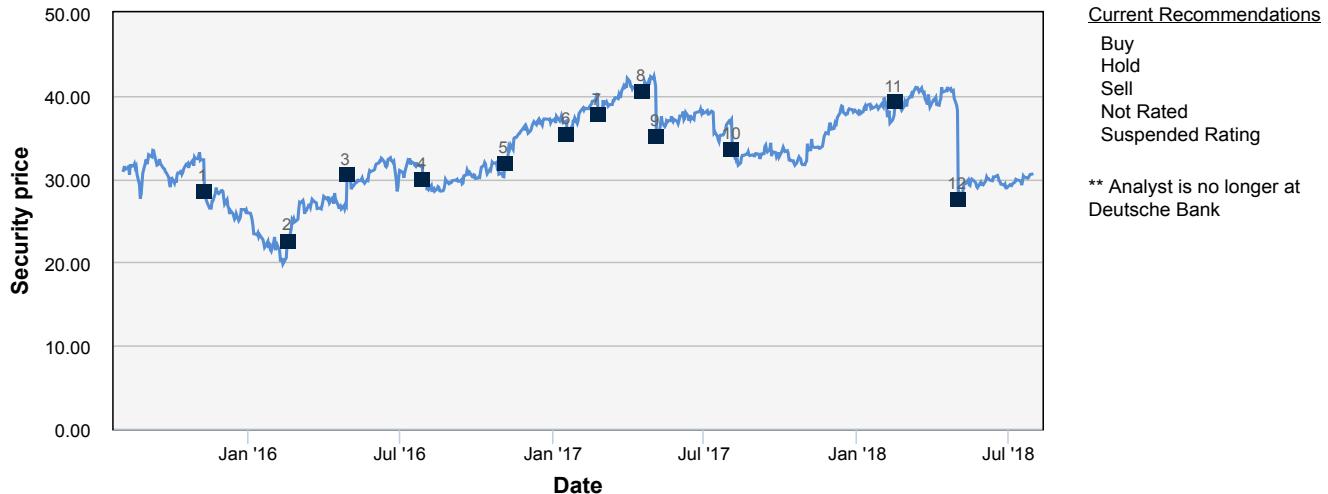
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Historical recommendations and target price. CommScope (COMM.OQ)

(as of 07/31/2018)



1. 11/10/2015	Buy, Target Price Change USD 35.00	Vijay Bhagavath
2. 02/19/2016	Buy, Target Price Change USD 33.00	Vijay Bhagavath
3. 04/29/2016	Buy, Target Price Change USD 36.00	Vijay Bhagavath
4. 07/29/2016	Buy, Target Price Change USD 35.00	Vijay Bhagavath
5. 11/04/2016	Buy, Target Price Change USD 38.00	Vijay Bhagavath
6. 01/18/2017	Buy, Target Price Change USD 40.00	Vijay Bhagavath
7. 02/24/2017	Buy, Target Price Change USD 42.00	Vijay Bhagavath
8. 04/19/2017	Buy, Target Price Change USD 50.00	Vijay Bhagavath
9. 05/05/2017	Buy, Target Price Change USD 46.00	Vijay Bhagavath
10. 08/04/2017	Buy, Target Price Change USD 42.00	Vijay Bhagavath
11. 02/16/2018	Buy, Target Price Change USD 45.00	Vijay Bhagavath
12. 05/02/2018	Buy, Target Price Change USD 40.00	Vijay Bhagavath

Equity Rating Key

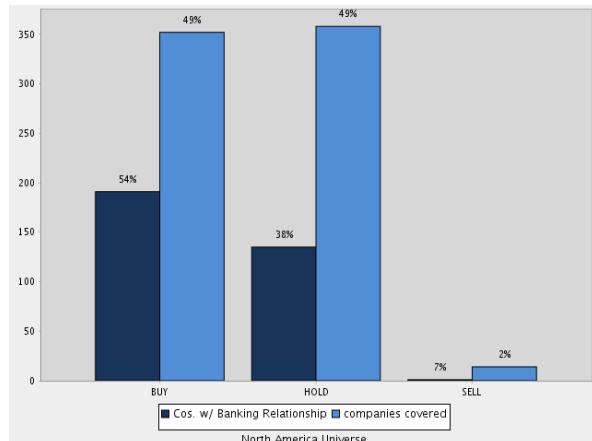
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