SPAIN TELECOM SERVICES

Field trip a positive update highlighting improved pricing power and AI as more opportunity than threat

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We hosted a Spanish telecom field trip with group and divisional management of Zegona, Orange, Telefonica, Cellnex and Digi in Spain. **Overall, the trip was incrementally positive, highlighting rising prices, greater competitive rationality and cost efficiency opportunities, in our view. We believe these factors should drive accelerating growth and continue to view the Spanish market as one of the more under-appreciated in Europe, with increasing upside risk to consensus forecasts.** The meetings also reassured on agentic AI risk, supporting our recent analysis. Key investment ideas for exposure to the Spanish opportunity are Buy-rated Orange, Telefonica (investment cases below, with more detail in our recent sector report) and Zegona (see our recent initiation report on the Spanish pure-play). Summary takeaways from our trip include:

Competitive intensity continues to ease. Spanish market growth has accelerated through 2026 as price rises across mobile and fixed have gained traction. On the trip, operators confirmed that the back-to-school promotional period in September has been less promotional than a year ago. In addition, we learned of: a) another round of price rises in late September, this time led by low-end brands including Zegona's Lowi on fixed + mobile converged tariffs and followed by its peers (excl. DIGI, Not Covered); b) less promotional activity more broadly; c) indicative Black Friday promotions being focused on devices rather than service tariffs. Operators note pricing power at the higher end thanks to the recently consolidated mobile market (as Masmovil and Orange combined 2.5 years ago) and the increasingly rational fibre market. Churn is falling across the market, not ramping materially with recent price rises. While DIGI remains competitively priced at the lower end of the market, operators generally considered it important that DIGI has not lowered prices in over a year (it has not ruled out price rises) and noted that its share take is not undermining over market structural quality.

Agentic AI risk downplayed. While agentic AI interfaces risk unwinding customer price inertia in telcos, we have highlighted the scale of the risk is likely more limited than many anticipate and introduced a framework for ranking countries at risk in which Spain scores relatively well. Our meetings supported this. Operators noted several mitigating factors to the risk: the gap between frontbook and backbook (repricing risk) has reduced meaningfully in recent years and ARPU (average revenue per user) trends have been improving; the high degree of convergence in Spain (vs

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rest of Europe) makes customers stickier; churn decisions are not made purely on price but also quality. Operators continue to view AI as a net positive with cost efficiency upside more than offsetting agentic repricing risk. We argue this implies upside risk to consensus estimates in the short, medium and long term.

Other updates – 1) Cellnex - noted successful contract renegotiations in Spain and optimism on France; 2) Cyber, defense and sovereignty opportunity - highlighted by all operators, but particularly TEF and MasOrange; 3) B2B a key growth opportunity - particularly for MasOrange and Zegona; 4) TEF updated on its organic and inorganic strategic decision tree in Germany and the UK.

Spain: Market snapshot

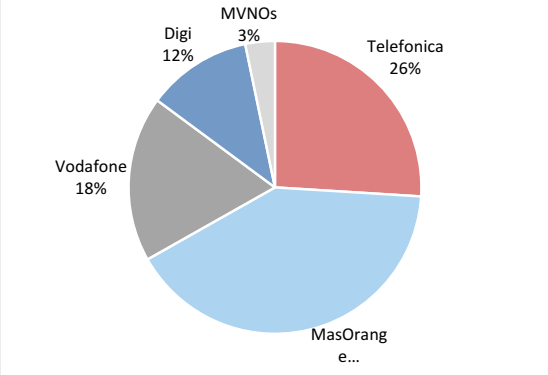
Mobile: The Spanish mobile market has already undergone significant consolidation following the MasOrange merger in 2024, reducing the competitive field from 4.25 to 3.25 operators (with DIGI counted as 0.25 as it still lacks full network ownership). If consolidation were to progress from 3.25 to 2.25 MNOs, it would represent the first move of its kind in Europe and could trigger meaningful market repair. In our view, this could support a re-rating not only in Spain but across the broader European telecom sector.

The market is led by four players: MasOrange, Telefonica, VodZegona (ex. Vodafone Spain), and Digi. It remains segmented across the premium, mid and low end tiers. Most operators active across tiers (e.g. Telefonica via its Movistar brand in the high end, and O2 in the low end). Digi stands out as primarily a challenger. We note that there are numerous registered MVNOs in the market, but most are small or inactive; there are c.20-30 active players (e.g. Finetwork, Lycamobile), accounting for only c.3% market share. This is down from c.15% previously, largely reflecting consolidation into larger MVNOs and as low-cost sub-brands under MNOs.

TowerCos: Spain hosts five TowerCos: Cellnex, American Tower, Vantage Towers, TOTEM, and Axion. This represents a higher number of independent tower companies than in most European markets.

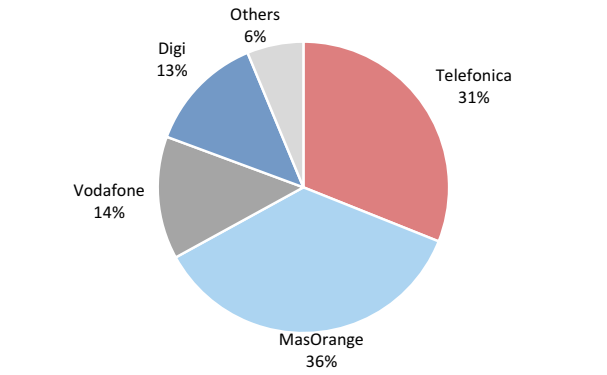
Fixed: Same four players — MasOrange, Telefonica, VodZegona (ex. Vodafone Spain), and Digi - hold a >90% fixed subscriber share in Spain. Spain now has >90% FTTH coverage — among the highest in Europe, with the DSL network/HFC (cable) networks now decommissioned/in the process of being decommissioned. Telefonica and MasOrange operate the majority of the FTTH fixed infrastructure market (partly as JVs with Vodafone/other partners), but the remainder of the market is fragmented with hundreds of altnets. Other key other players include Onivia (the largest wholesale FTTH provider), Avatel and Adamo. Fibre overbuild is high particularly in Southern and Eastern Spain. This was driven by structurally low deployment costs (legal and widely used aerial fibre, dense apartment housing, etc.) and Telefonica's early move directly to FTTH, which prompted peers to follow. Given strong fixed-mobile convergence in Spain (>80% of customers), we note that mobile consolidation would also benefit fixed.

Exhibit 1: The Spanish mobile market has already undergone significant consolidation with the MasOrange merger, which is now #1 operator by market share...
Mobile market share by subscribers, 2025



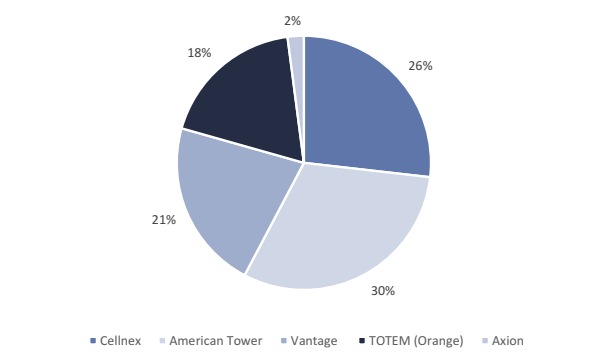
Source: Data compiled by Goldman Sachs Global Investment Research, CNMC

Exhibit 2: ...and the same holds for the fixed market
Broadband market share by subscribers, 2025



Source: Data compiled by Goldman Sachs Global Investment Research, CNMC

Exhibit 3: Spain has 4 main tower companies active in the market [chart replaced and new title/source]
Approximate market shares in the Spanish tower market



Source: TowerXchange, Goldman Sachs Global Investment Research

Exhibit 4: The Spanish fixed infrastructure market is highly fragmented with scope to consolidate
Spain: FTTH coverage - # of homes covered vs. # of self-built homes & % uptake (incl. JVs)

Spain: Fibre Coverage			
	# of homes covered	% penetration	# of self-built homes inc. JVs
Telefónica	32	32%	31
MasOrange	32	21%	19†
vodafone	32	5%	17*†
DIGI	16	14%	8
ONIVIA	10	n.m.	10
AVATEL TELECOM	6	13%	4
Bluevía Fibra de Telefónica	5	n.m.	5
adamo	4	8%	4
elanta	3	n.m.	3
Olin Group	2	17%	2

(*) A portion of lines are accessed through Telefonica and Vodafone's shared infrastructure JV Fiberpass, which has c.4m homes passed. (†) A portion of lines are accessed through a shared infrastructure JV between MasOrange and Vodafone, which has c.12m homes passed. On our estimates, MasOrange contributed c.10m lines and Vodafone c.€2m.

Source: Company data, Goldman Sachs Global Investment Research

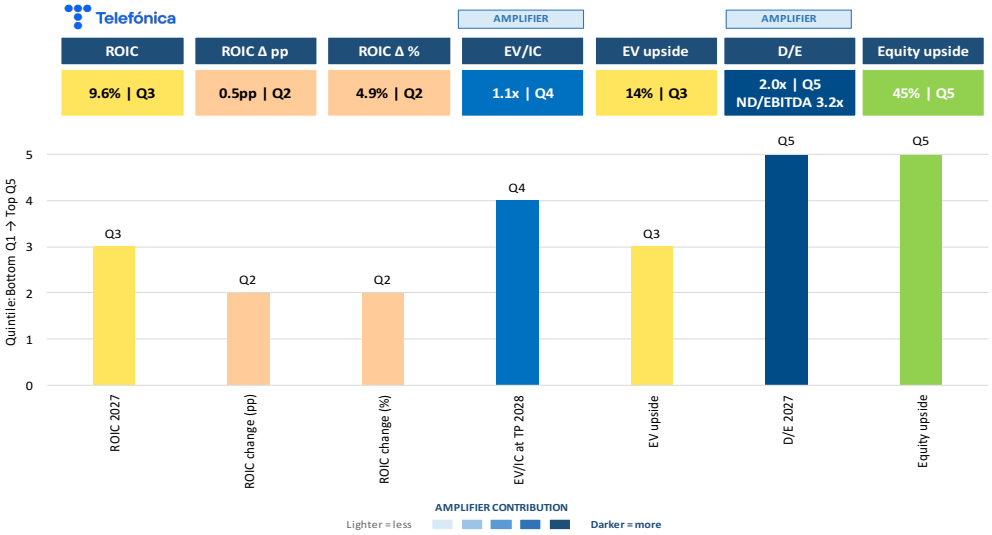
Investment Theses

Telefonica (Buy, TP €4.9)
Near-term uncertainty over capital allocation may weigh on TEF shares, but we see upside from improving fundamentals and accretive consolidation potential in Germany/Spain. We highlight:

1. **Our EBITDA forecasts are +1%/+2%/+3% vs. consensus for 2026/27/28E, supported by our more bullish structural growth outlook for Spain and Brazil** (consolidated markets) as well as ongoing cost-cutting. We believe management's mid-term EBITDA growth guide given at the CMD in October 2025 is conservative – German weakness continues but underlying declines (excluding the lost 1&1 wholesale revenues weighing on 2025 and to a lesser extent in 2026) would need to be the worst in the sector for Spain and Brazil strength not to drive better performance than the guide, on our analysis. At its FY25 results, the company stated that Germany is expected to return to growth in 2027.
2. **Spanish growth outlook under-appreciated:** Our Spain telco field trip this past May highlighted recent market structure improvement in mobile and fibre combined with macro tailwinds, population and GDP growth. This drove an acceleration in TEF Spain service revenue growth to 2.9% yoy in 2Q26 - its highest in years. We believe this is sustainable; consensus estimates imply a material slowdown.
3. **Brazil strong structural growth to continue:** a concentrated three-player mobile market combined with solid macro has sustained strong TEF Brazil growth for a number of years now.
4. **We remain cautious on the scope for TEF Germany (20% of EBITDA) to grow** as an infrastructure-light operator in a 4-player competitive market. However, we view the announced c.12% headcount reduction programme by YE26 as encouraging, as it should partly offset 1&1-related losses, while the competitive backdrop also appears to be improving following recent price increases across the market.
5. **Deals to pursue consolidation in Germany or Spain could be value-accretive:** Our detailed analysis suggests these could add 46% total equity upside on average (see Exhibit 13 here).
6. **Rights-issue risk is a concern but would likely support a value-accretive consolidation deal:** With 2026E ND/EBITDA at 3.7x (IG status: <4x) and ongoing organic de-gearing by 0.3x p.a., some deals may not require an equity capital raise at all. *We have written previously about this here.*

Key catalysts: (i) upcoming results: potentially driving consensus upgrades; **(ii)** any acquisition announcement by TEF: this would give an insight into capital discipline and, over time, increase visibility on its deal financing plans.

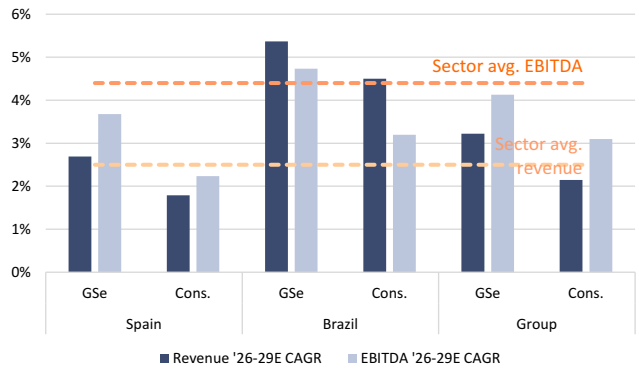
Exhibit 5: Equity upside from Telefonica's returns improvement is amplified by a low EV/IC multiple and relatively high leverage
Summary profile: returns improvement, gearing and equity upside



This is based on our evolved stock picking framework as presented in the PM Summary section of our sector report.

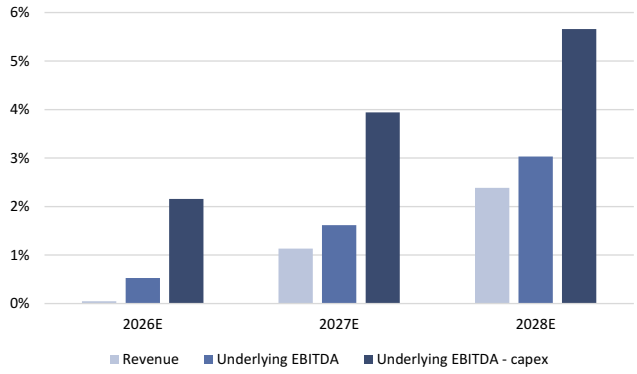
Source: Goldman Sachs Global Investment Research

Exhibit 6: Our Buy rating is underpinned by improving fundamentals in Spain and Brazil as well as ongoing cost-cutting
TEF's revenue/EBITDA vs. cons./sector avg., 2026-29E CAGR (TEF guide timeframe)



Source: Goldman Sachs Global Investment Research, Visible Alpha Consensus Data

Exhibit 7: These core markets drive our above-consensus estimates for the group
GS vs. Visible Alpha Consensus, 2026-28E



Source: Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

Cellnex (Sell, TP €26)

We see greater upside potential across the broader telco sector over the next year, and maintain our Sell rating on Cellnex, relative to our coverage. Investor confidence and multiples for European tower companies have fallen to all-time lows due to structural growth concerns. We remain more constructive than consensus on key investor structural concerns. However, we do not expect these concerns to be sufficiently resolved over the next year to support a re-rating. We see three main concerns:

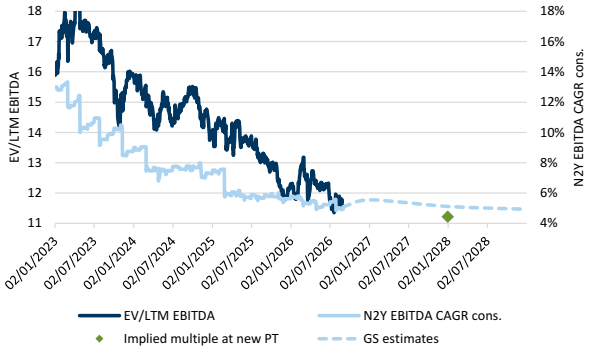
1. **Consolidation risk – reassuring evidence unlikely for the next year:** Investors are concerned that operator consolidation limits the maximum number of customers for Cellnex, and therefore its growth. We believe consolidation can actually boost operator network investment and tower usage in the medium term. Investors would need to see evidence of this in Cellnex's two most recently consolidated markets, the UK and Spain, to gain confidence. However, Cellnex commentary at 2Q26 results suggested acceleration in the UK is unlikely pre 2H27; in Spain, growth is currently centred on small cells rather than traditional tower usage which implies lower returns.
2. **Contract renegotiation and RANCO risk concerns likely to linger:** In Italy, TI and Swisscom are trying to renegotiate lower tenancy fees, arguing a legal change of control clause allows for this. In other markets, operators are working on setting up antennae sharing JVs (RANCOs) to reduce the number of tower tenancies they must pay for. While the Italy disputes could be resolved in 1H27, we would expect uncertainty on the impact of RANCOs to linger.
3. **Satellite technology competition risk – disproving a negative:** We see risk from expanding satellite telecom service delivery as limited to rural areas for towercos. Cellnex itself has provided strong arguments for why satellite technology poses limited risk to terrestrial mobile networks. However, the 'disproving a negative' nature of this issue means we believe it will take longer for investor concerns to abate here.

We also continue to believe that recent organic growth slowdowns are temporary, but do not expect growth to materially reaccelerate before 2H27.

Key risks to our Sell thesis include: Macro rates uncertainty – while we have seen the structural tower concerns decouple the historically high correlation between tower multiples and rates, this is temporary as in our view a falling rates environment would be positive for Cellnex; press speculation on Cellnex investigating strategic options boosted the shares in July, however we see limited optionality in the near term.

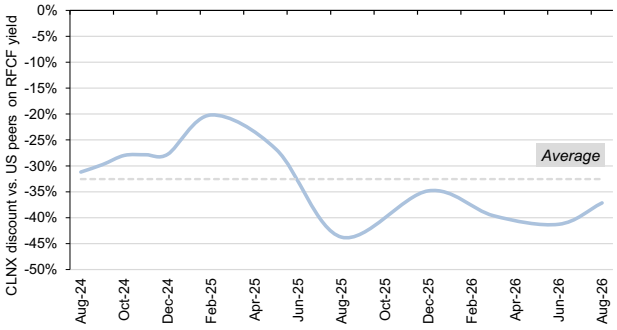
For more details on our view, please see our recent *sector note*.

Exhibit 8: Our Cellnex TP reflects concerns on the structural growth, which we do not expect to be sufficiently resolved over the next year
EV/LTM EBITDA vs. 2YFW EBITDA CAGR



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: Cellnex's discount to US peers is broadly in line with its historical average
Cellnex historical discount vs. peers on 2Y FW RLFCF yield



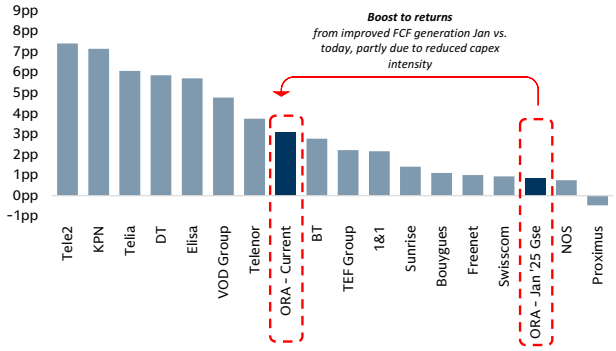
Source: Company data, Goldman Sachs Global Investment Research

Orange (Buy, TP €21.6)

We model Orange delivering a c.3pp ROIC improvement between 2025-30, a 50% increase vs the sector average of c.+40%. This is driven by (1) our below-consensus capex assumptions (company-compiled), with structural capex intensity falling across EU telcos, driven in particular by fibre broadband efficiencies – where Orange has relatively high exposure; and (2) our above-consensus view on MasOrange's structural growth.

Following upgrades to FY26 guidance at Q1 and H1 results, we see scope for further outperformance plus potential guidance upgrades in both the near- and mid-term. We see this as likely to be supported by continued MasOrange growth improvement and cash flow conversion from stronger MEA EBITDA growth, as well as, into the mid-term, more favourable capex intensity trends.

Exhibit 10: We expect Orange to deliver a c.3ppt ROIC improvement over the next 5 years (vs. +1ppt in our January assumptions)
2025-30 ROIC improvement, sector vs. Orange in January and Orange today



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 11: We model +8% FCF vs consensus by 2028, driven by our higher Spanish growth assumptions and lower capex estimates
2026E and 2028E, Company Guide & Company consensus

	GS vs. Cons		GS vs. Current Guide	
	2026	2028	2026	2028
EBITDAaL	**1%**	**2%**	**1%**	**3%**
France	0%	0%	1%	1%
Spain	4%	1%	3%	2%
MEA	2%	9%	6%	13%
eCapex	**0%**	**(1%)**	**0%**	**(1%)**
France	(1%)	(5%)		(5%)
Spain	3%	(10%)		(8%)
MEA	2%	9%		0%
FCF*	**6%**	**8%**	**2%**	**8%**

*Organic company defined FCF

Source: Goldman Sachs Global Investment Research, Company data

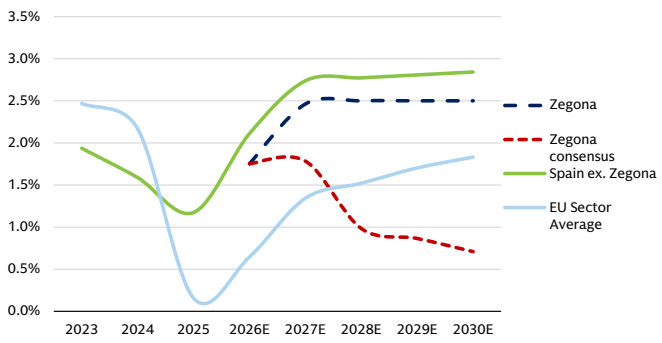
Zegona (Buy, TP 2,950p)

We recently initiated on Zegona at Buy, with a 12m PT of 2,950p (+ c.66% upside). We see scope for a material c.6pp ROIC improvement over 2026-30, putting Zegona among the highest-quality names in the sector (avg. 3pp). Our above-consensus estimates support this, with revenue/EBITDAaL 4%/9% ahead of consensus by FY29, implying c.16%/c. 30% upside to consensus OpFCF/FCF - driven by two factors:

1. **Structural growth in the Spanish market**. We view the Spanish market as the most in European telcos following its consolidation from 4.25x to 3.25x operators in 2024. We model c.3% 2026-30 service revenue CAGR vs. the EU sector average of c.1.8%. We expect Zegona to grow in line with the Spanish market, supported by share gain in B2B, SMEs and public-sector contracts, while continuing to participate in underlying growth across B2C.
2. **Further support from opex and capex efficiencies.** On opex, we forecast 1pp p.a. expansion over the mid-term (cons. <0.5pp). We expect operational and AI efficiencies to offset fibre-transition headwinds. On capex, we believe Zegona's infrastructure-light model and fibre-transition benefits support improved cash generation. We model capex/sales at 15%/14% in 2027/2029, 2%/5% below consensus.

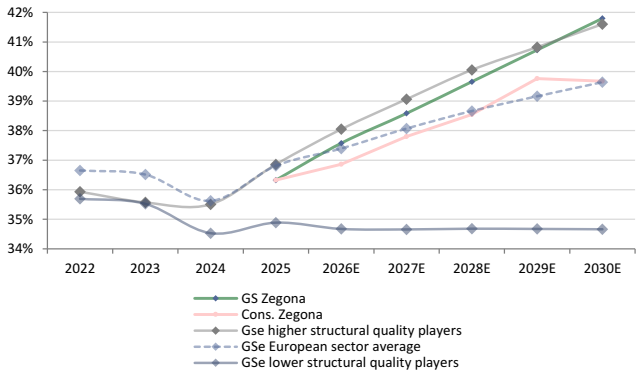
We also see compelling valuation. Our 12m PT of 2,950p comprises: 1) a fundamental value of 2,800p - on our EV/IC vs ROIC framework, Zegona trades at a material discount to the sector, which we view as unjustified given its simplicity; and 2) a 30%-weighted M&A value of 3,300p to reflect the group's strategic appeal. Management announced €200mn in share buybacks this year with a €200mn 2027 dividend. It intends to maintain a 100% FCF payout ratio going forward, which we now reflect. This implies an 2026 TSR yield of c.11% (vs. cons/sector c.6%).

Exhibit 12: We expect Zegona to generate c.3% service revenue CAGR 2026-30 vs. the c.1.8% EU sector average
Service revenue growth, GSe Zegona vs. consensus, Spain and sector



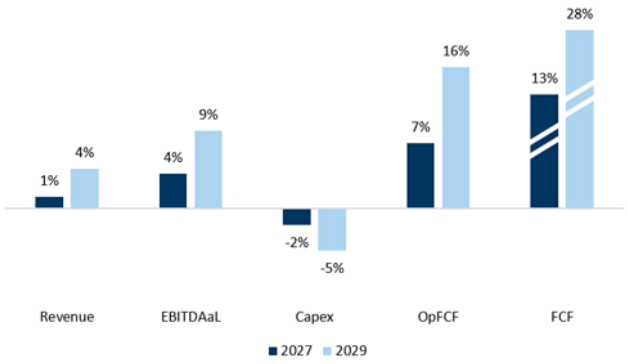
Source: Visible Alpha Consensus Data, Company data, Goldman Sachs Global Investment Research

Exhibit 13: We also see potential for continued EBITDA margin improvement, driven by operational improvements and AI efficiencies
GSe, GS Buys, Sells and Zegona estimates vs. consensus



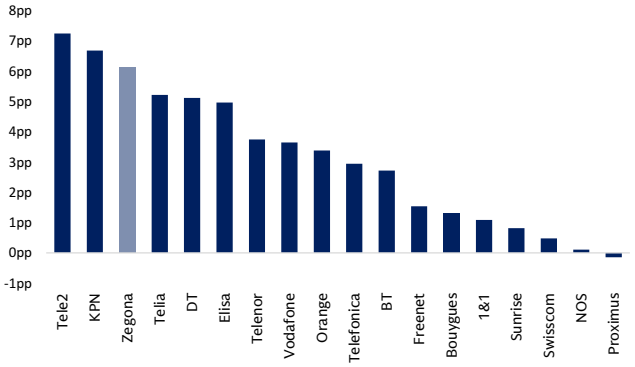
Source: Visible Alpha Consensus Data, Company data, Goldman Sachs Global Investment Research

Exhibit 14: This puts our estimates 7%/16% ahead of OpFCF consensus by 2027/2029
GSe revenue, EBITDAaL, capex and OpFCF vs. Visible Alpha Consensus, FY2027 and FY2029



Source: Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

Exhibit 15: Our estimates support c.6pp in ROIC improvement 2026-30, putting Zegona among the highest-quality names in the sector
2026-30 ROIC improvement



Source: Goldman Sachs Global Investment Research

Valuation and key risks

Telefonica (Buy)
We are Buy rated on Telefonica. Our 12-month price target of €4.90 is based on our EV/IC to ROIC/WACC methodology.

Key downside risks to our view and price target include: 1) Spanish competition/churn; 2) German competition; 3) Brazil: taxation, execution of regulatory-regime migration and related asset sales, macroeconomic impact on mobile prepaid, execution of growth strategy in IT and new revenue streams, and competition in mobile postpaid and fixed broadband; 4) LatAm FX and macroeconomic volatility; 5) UK (not consolidated): cable upgrade cycle (higher capex than expected), value-destructive M&A, and competition/operating trends; 6) M&A execution risk.

Cellnex (Sell)
Our 12-month, ROIC-based price target is €26.

Key upside risks to our view and price target include: 1) Consolidation risk, 2) Contract renegotiation and RANCO risk, 3) Satellite technology competition risk, 4) Higher than expected inflation (paired with continued lease cost optimisation), 5) Macro rates uncertainty, 6) Inorganic upside.

Orange (Buy)
Our 12-month, EV/IC to ROIC/WACC-based price target is €21.6.

Key downside risks to our thesis and PT include: 1) energy cost risk to opex; 2) a value-dilutive deal to Orange; 3) a deterioration of organic trends; 4) lower-than-anticipated AI and other efficiencies; and 5) macro risks.

Zegona Communications (Buy)
Our 12m PT of 2,950p comprises 1) a 2,800p fundamental valuation and 2) a 30% weighted M&A component of 3,300p, where we apply an 8x EV/EBITDA multiple (FY2027), in line with the average for comparable telecom transactions.

Key risks to our thesis include: 1) A deterioration of organic trends in Spain, including greater competition from Digi**;** 2) Risk that AI interfaces weigh on sector revenue and margins; 3) Lower-than-anticipated AI efficiencies; 4) Network cost risk; 5) Off-balance sheet deferred tax asset; 6) Energy cost risk to opex; 7) Macro risks.

Disclosure Appendix

Reg AC

We, Andrew Lee, Mollie Witcombe, Sofija Rakicevic, Halima Elyas and Mridul Agrawal, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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Rating and pricing information

Cellnex Telecom SAU (Sell, €22.63), Orange (Buy, €14.03), Telefonica (Buy, €3.43) and Zegona Communications PLC (Buy, 1,780p)

The rating(s) for Cellnex Telecom SAU, Orange, Telefonica and Zegona Communications PLC is/are relative to the other companies in its/their coverage universe: 1&1 AG, Airtel Africa Plc, BT Group, Cellnex Telecom SAU, Deutsche Telekom, Elisa OYJ, Eutelsat Communications, Freenet, Grupa Pracuj SA, Infrastrutture Wireless SpA, Ionos SE, Liberty Global Plc, MTN Group, Nos SGPS, OTE, Orange, Proximus Plc, Royal KPN NV, Sunrise, Swisscom, Tele2, Telefonica, Telenor, Telia Co., United Internet, Vodacom, Vodafone, Zegona Communications PLC

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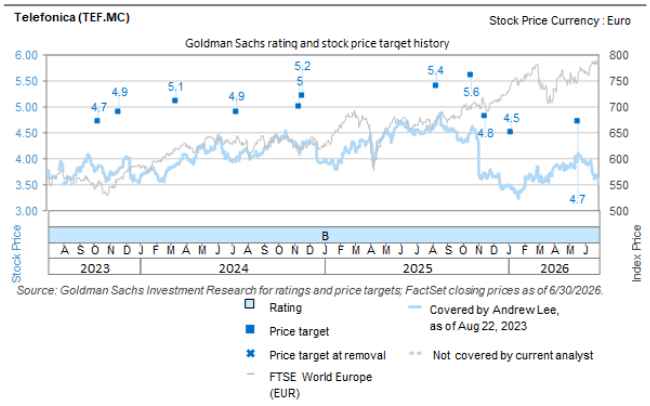
Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global Equity coverage universe

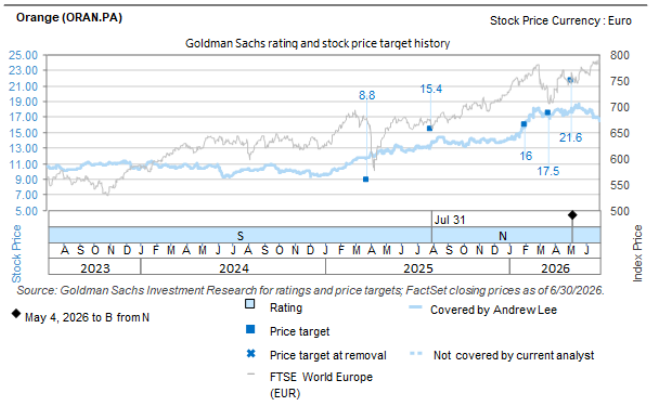
	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	50%	34%	16%	65%	59%	43%

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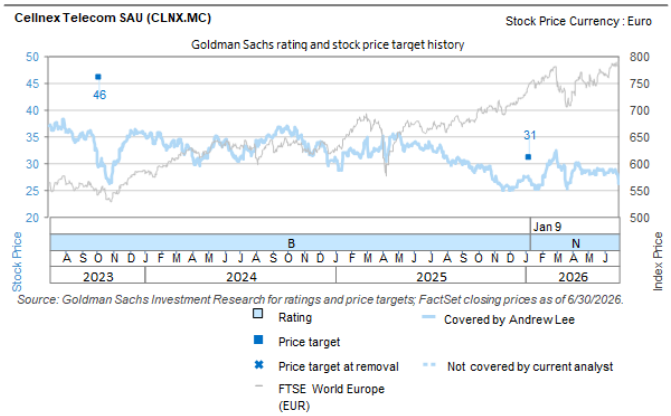
Price target and rating history chart(s)



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Target price history table(s)

Telefonica (TEF.MC)

Date of report	Target price (€)	Closing price (€)
02-Sep-26	4.90	3.66
05-Aug-26	5.00	3.61

Cellnex Telecom SAU (CLNX.MC)

Date of report	Target price (€)	Closing price (€)
04-Sep-26	26.00	25.66
09-Jan-26	31.00	26.90

Telefonica (TEF.MC)

Date of report	Target price (€)	Closing price (€)
19-May-26	4.70	4.10
07-Jan-26	4.50	3.49
17-Nov-25	4.80	3.73
20-Oct-25	5.60	4.58
11-Aug-25	5.40	4.70
19-Nov-24	5.20	4.33
13-Nov-24	5.00	4.08
11-Jul-24	4.90	4.04
13-Mar-24	5.10	3.89
21-Nov-23	4.90	3.78
11-Oct-23	4.70	3.87

Cellnex Telecom SAU (CLNX.MC)

Date of report	Target price (€)	Closing price (€)

Orange (ORAN.PA)

Date of report	Target price (€)	Closing price (€)
05-May-26	21.60	17.92
20-Mar-26	17.50	17.12
02-Feb-26	16.00	15.89
31-Jul-25	15.40	13.35
25-Mar-25	8.80	11.76

Zegona Communications PLC (ZEG.L)

Date of report	Target price (£)	Closing price (£)
30-Sep-26	2,950	1,752

Price targets shown in table(s) are unadjusted for corporate actions.

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