

Iliad

Price EUR218.60

The wild child comes of age: thank you Orange!

Fair Value EUR270 (+24%)

BUY

Coverage initiated

Bloomberg	ILD.FP
Reuters	ILD.PA
12-month High / Low (EUR)	235.1 / 175.5
Market Cap (EURm)	12,810
Ev (BG Estimates) (EURm)	13,932
Avg. 6m daily volume (000)	95.10
3y EPS CAGR	27.2%

We are initiating coverage of Iliad with a Buy recommendation and a fair value of €270, assuming the materialisation of the merger between Orange and Bouygues Telecom. In this consolidation, we essentially see value in the effects of a 'market repair' leading to reduced promotional intensity in the market. This merger also enables Free's prospects to be secured on the issue of the roaming contract with Orange and the deployment of its mobile network.

ANALYSIS

- Free is at a pivotal point in its history. It needs to negotiate the exit from the **roaming contract** with Orange, **accelerate the deployment of its mobile network**, make up for its **lag in optical fibre infrastructure** and identify a **value growth relay** as its volume growth starts to decelerate. Within this context, while we believe that Free is capable of going it alone, it looks to have the most to gain from market consolidation driven by the Orange/Bouygues Telecom merger. After the roaming contract, the acquisition of Bouygues Telecom: thank you Orange!
- We see Free as capable of maintaining strong revenue growth without market consolidation, **averaging some 6% over the next three years**, driven mostly by volumes. We estimate the additional revenue effects of a landline and mobile **market repair at +€259m by 2018**.
- The share price has already reacted to the announcement of discussions between Bouygues Telecom and Orange but has yet to price in all the opportunities linked to market repair. Having moved up from €208 to €219 since the announcement of discussions, **our scenario based on the realisation of the deal derives a fair value of €270**. All other things being equal, **in the absence of consolidation, our fair value is €212**.

VALUATION

- We are initiating coverage of Iliad with a Buy rating and a Fair Value of EUR270.
- Iliad is currently trading at 3.16x in EV/Sales and 9.3x in EV/EBITDA.

NEXT CATALYSTS

- 2015 results publication on March 15th 2016 (to be confirmed).

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	1 M	3 M	6 M	31/12/15
Absolute perf.	1.0%	22.6%	2.0%	-0.6%
Telecom	-6.3%	-4.2%	-19.2%	-7.8%
DJ Stoxx 600	-9.0%	-9.5%	-19.0%	-10.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	4,168	4,428	4,782	5,149
% change		6.2%	8.0%	7.7%
EBITDA	1,284	1,507	1,761	2,062
EBIT	0.0	0.0	0.0	0.0
% change		NM	NM	NM
Net income	278.4	350.2	426.8	582.6
% change		25.8%	21.9%	36.5%

	2014	2015e	2016e	2017e
Operating margin	13.7	15.6	17.0	20.9
Net margin	6.7	7.9	8.9	11.3
ROE	12.3	13.3	14.1	16.2
ROCE	9.7	10.5	10.3	12.1
Gearing	46.9	42.5	46.1	32.7

(EUR)	2014	2015e	2016e	2017e
EPS	4.73	5.85	7.13	9.73
% change	-	23.7%	21.9%	36.4%
P/E	46.2x	37.4x	30.7x	22.5x
FCF yield (%)	NM	0.4%	NM	2.7%
Dividends (EUR)	0.36	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	3.3x	3.1x	3.0x	2.7x
EV/EBITDA	10.8x	9.2x	8.1x	6.8x
EV/EBIT	NS	NS	NS	NS



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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