

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	235.1 / 175.5
Market Cap (EURm)	13,422
Ev (BG Estimates) (EURm)	14,544
Avg. 6m daily volume (000)	95.20
3y EPS CAGR	27.2%

Iliad could seize the opportunity of the O2/Three merger in the UK to move into the market. Although we think the move is credible, this information is fairly preliminary, and we see no major impact on the stock price at this point. Also, execution and financing might be an issue within the context of highly-probable French consolidation. Last: could this “leak” be a way for Iliad to put pressure on its competitors in the Orange/Bouygues merger negotiations, and appear to have other opportunities if the deal fails?

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.0%	18.2%	7.1%	4.1%
Telecom	-4.1%	-7.8%	-14.3%	-4.5%
DJ Stoxx 600	-8.2%	-10.9%	-14.8%	-8.1%

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	48.4x	39.2x	32.1x	23.6x
FCF yield (%)	NM	0.4%	NM	2.5%
Dividends (EUR)	0.36	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	3.5x	3.3x	3.1x	2.8x
EV/EBITDA	11.3x	9.7x	8.4x	7.1x
EV/EBIT	NS	NS	NS	NS

ANALYSIS

- According to the Financial Times, Xavier Niel is exploring a move into the British mobile market on the back of the proposed acquisition of O2 by rival Three. Iliad, the French telecoms group controlled by Mr Niel, has approached Ofcom, the UK telecoms regulator, to express a “preliminary” interest in entering the market, according to people familiar with the situation. This move would depend on acquiring telecoms infrastructure as a result of the O2-Three merger, according to a person with knowledge of the situation. The person added that the antitrust authorities in Brussels were expected to force the combined group to sell or open its network to rivals as the market consolidates from four to three operators. Iliad and Ofcom have declined to comment.
- We believe this type of move is very credible from Iliad, as we don’t see Xavier Niel contenting himself with managing a national Free as its revenues stabilize. In our view, he is likely to look for external growth after years of double-digit organic growth, as he did last year with a surprise offer to acquire a majority stake in T-Mobile US.
- Iliad has a low level of debt, around EUR1.1bn, with 2015 estimated EBITDA at EUR1.5bn. Assuming a maximum leverage ratio of four times 2015 EBITDA, Iliad could raise additional debt of EUR4.8bn. Furthermore, by accepting dilution for Xavier Niel while leaving him with 50.01% of the share capital, Iliad could raise €1.1bn by way of a capital increase. This brings Iliad’s acquisition war chest to around EUR6bn.
- Nevertheless, this type of deal faces several hurdles: first, Hutchison is unlikely to agree to creating a rival mobile network that would remove the consolidation benefits of acquiring O2. Also British rivals such as Sky and TalkTalk are also hoping to be able to acquire the infrastructure in a forced sale.
- Last but not least, Iliad should also be involved in the French consolidation to take place in France with the Orange/Bouygues Telecom merger. As Iliad might pay around EUR1.5bn in our estimates for Bouygues’s networks assets, and possibly buy out some of Bouygues Telecom’s consumers, this will leave him with limited acquisition capacity in the UK. It will also raise execution issues, and we believe handling the two projects at the same time might be complex.

VALUATION

- Buy rating and fair value of EUR270
- Iliad is currently trading at 3.3x in EV/Sales and 9.7x in EV/EBITDA

NEXT CATALYSTS

- O2/Three deal set to be challenged in the next week by the European competition regulator
- Iliad 2015 results publication on March 15th 2016 (to be confirmed)

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