

Orange and Bouygues close to an agreement

Fair Value EUR270 (+28%)

BUY

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	235.1 / 175.5
Market Cap (EURm)	12,332
Ev (BG Estimates) (EURm)	13,455
Avg. 6m daily volume (000)	98.20
3y EPS CAGR	27.2%

According to the Journal Du Dimanche, Orange and Bouygues Telecom are close to an agreement for the merger of the two companies. A project could be presented on Tuesday, together with Orange's annual results. Le Figaro is saying an agreement has been reached between all stakeholders for the dismantling of assets, but negotiations are still difficult regarding a number of liabilities. This latest news reinforces our belief that French market consolidation will happen, and Iliad will greatly benefit from it.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.8%	4.5%	-3.0%	-4.5%
Telecom	-9.5%	-16.0%	-19.4%	-12.4%
DJ Stoxx 600	-9.0%	-16.1%	-18.4%	-14.6%

ANALYSIS

- The JDD said on Sunday that Orange and Bouygues Telecom are very close to an agreement. Negotiations should conclude by the week-end, with an objective to announce a preliminary agreement together with Orange's annual results on Tuesday morning. Orange denied this, saying there will be no announcement on Tuesday.
- JDD reports that negotiations were close to breaking up last week, but Iliad finally agreed to put more money into the deal in exchange for more lower frequencies. Someone familiar with the matter said an agreement was found on Thursday and Martin Bouygues and Stephane Richard met to record the terms of the agreement.
- Le Figaro reported on Saturday that Martin Bouygues accepted a stake of 10% in Orange's capital, and would be willing to sign a letter of intent to the AMF with a commitment to cap its stake. The French State would be willing to give one or two seats to Bouygues at the board.
- According to Le Figaro, Iliad will buy out EUR2bn worth of network assets and frequencies. This is a little more than we expected, mostly due to a greater number of frequencies. Low level frequencies could help Free recruit more valuable customer and we only partially included this in our calculations.
- According to Le Figaro, Iliad should also buy customers from Bouygues Telecom, at a price a little below 2x revenues, which seems like a good price to us. This effect is not yet included in our Fair Value calculation.
- According to Le Figaro, Iliad could also buy about 50 shops from Bouygues Telecom. This should help boost Free's sales and this is not included in our Fair Value.
- Le Figaro notes that there were still disagreements on a number of liabilities: fiscal impact of added value on assets sold by Orange and dismantling costs of Bouygues Telecom (IT, premises...). These costs will need to be shared between the buyers.
- The value and nature of assets that will eventually be bought by Iliad should be looked at carefully. At this point, we are maintaining our Fair Value of EUR270, and reiterating our BUY recommendation.

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	44.4x	35.9x	29.5x	21.6x
FCF yield (%)	NM	0.5%	NM	2.8%
Dividends (EUR)	0.36	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	3.2x	3.0x	2.9x	2.6x
EV/EBITDA	10.5x	8.9x	7.8x	6.6x
EV/EBIT	NS	NS	NS	NS

VALUATION

- We are making no change to our estimates at this point and will wait for further details about the deal.

NEXT CATALYSTS

- Orange's annual results, 16th February.
- Iliad's annual results, 10th March.

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Distribution of stock ratings

BUY ratings 72%

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