

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	231.4 / 175.5
Market Cap (EURm)	13,078
Ev (BG Estimates) (EURm)	14,200
Avg. 6m daily volume (000)	98.10
3y EPS CAGR	27.2%

We reiterate our Buy rating with a Fair Value of EUR270 following the conference call on 2015 results. We are confident in Iliad's strategy and ability to deliver ambitious plans on the fibre side. We are currently waiting for news on the Orange/Bouygues merger, and details on the price and nature of assets to be bought out by Iliad.

ANALYSIS

- Fibre:** Iliad presented an ambitious fibre roll out plan, with a target of 8m FTTH homes exceeded by 2018 and 20m by 2022. These targets appear compatible with CAPEX guidance, with Iliad stating that mobile CAPEX will decrease as fixed CAPEX takes over. The FTTH roll out is now moving to an industrialisation phase. Free has about 200k fibre customers in very dense areas, and is now starting to pick up customers in medium dense areas. Iliad considers fibre regulations as still too favorable for Orange and is pushing for a change in the rules, especially in less dense areas.
- Landline and Mobile ARPU:** On the mobile side, Iliad did not make any comments on ARPU, but said it still relied essentially on customer acquisition and retention to fuel revenue growth. Nevertheless, Iliad is enjoying a good trend in customers migrating from the EUR2 offer to the EUR20 offer, driven by a sharp increase in 4G users, and expects these migrations to transform into ARPU in the future. We believe in this strategy, but were expecting results as soon as Q4, whereas it seems more time is needed before upside kicks in. On the fixed side, Iliad said not to expect any ARPU increase soon, although the trend was better than expected, with a stabilisation over the past two quarters. In particular, Iliad said that customers coming out of promotions were contributing to the good level of ARPU.
- Guidance:** Iliad reiterated 2020 EBITDA guidance for a minimum of 40%. We still see this guidance as slightly conservative. On the CAPEX side, Iliad gave 2016 guidance of between EUR1.25bn and EUR1.3, which is a little above our estimate for EUR1.23. Iliad's DSL CAPEX will be lower in 2016 than in 2015, fibre CAPEX will be higher (with more customer connections in particular), and mobile CAPEX should be the same.
- M&A and French market consolidation:** Iliad said it is looking at several M&A opportunities, not only in the UK, but said there was no guarantee that any of these would lead to a deal. Iliad insisted on its healthy balance sheet, saying the company was not debt-adverse. In particular, in the case of French consolidation, Iliad insisted there would be no dilution of shareholders, and asset buy outs would be financed exclusively by debt. Iliad said it was not interested in buying BtoB assets in the case of French consolidation while discussions with Orange and Bouygues are complex, from an industrial and operational point of view, although the group seemed rather confident in a positive outcome.
- Box:** Regarding a new Box replacing the Revolution device, Iliad did not give any precise timing, but Xavier Niel's declarations did suggest that a new Box might be out by the beginning of 2017.
- Iliad said the guidelines published by ARCEP on **network sharing agreements** were very demanding, but are compatible with Free's roll out plans.

VALUATION

- Iliad is now trading at trading at 8.2x EV/EBITDA 2016e
- We reiterate our BUY rating on Iliad, with a FV of EUR270, based on market consolidation.

NEXT CATALYSTS

- News on the Orange-Bouygues merger talks expected by the end of March.

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.5%	4.4%	14.3%	1.3%
Telecom	4.6%	-6.2%	-8.5%	-7.1%
DJ Stoxx 600	5.8%	-8.2%	-7.2%	-8.8%

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	47.1x	38.1x	31.3x	22.9x
FCF yield (%)	NM	0.4%	NM	2.6%
Dividends (EUR)	0.36	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	3.4x	3.2x	3.0x	2.8x
EV/EBITDA	11.0x	9.4x	8.2x	6.9x
EV/EBIT	NS	NS	NS	NS



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Distribution of stock ratings

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