

## Altice

Price EUR13.97

Diversification is key

Fair Value EUR16.3 (+17%)

BUY

Coverage initiated

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	32.2 / 10.0
Market Cap (EURm)	15,282
Ev (BG Estimates) (EURm)	50,843
Avg. 6m daily volume (000)	2,642
3y EPS CAGR	

We are initiating coverage of Altice with a Buy recommendation and a Fair Value of EUR16.3. We believe the share price over estimates the uncertainty on the French market and does not reflect opportunities prompted by expansion in Portugal and the US sufficiently well. Altice is highly indebted, but it can prove the efficiency of its model by leveraging up the diversification of geographical locations and markets where it operates.

## ANALYSIS

- Following a first set of mixed results for France and the first trends in Portugal, we expect a **reaction from the group** testifying to its ability to **create value over the long term**. In particular, we are **very confident in its expansion in the US**, which in our view helps the group diversify operating risk by investing in a market close to its historical core business.
- We are forecasting pro-forma sales down **1.4% over 2016**, vs stable in 2015, due to Portugal and France especially, followed by a **return to sales growth as of 2017**. We estimate adjusted pro-forma EBITDA growth at **4.5% for 2016** (in line with guidance), and expect an **adjusted pro-forma EBITDA margin of 43.1% to be reached in 2018**, 500bp higher than the 2015 rate.
- The group's net debt is high at EUR35.5bn (before Cablevision) at **5.5x 2015 EBITDA**, and presents a **significant refinancing risk** that we have factored into our valuation and which therefore weighs on our Fair Value.

## VALUATION

- We have calculated a **Fair Value for Altice of EUR16.3**, stemming from a **DCF valuation of EUR18.6** and an **SOTP valuation of EUR14.1**, driven especially by a valuation of the North-American business at 10x EBITDA.

## NEXT CATALYSTS

- Q1 2016 results on May 10<sup>th</sup>.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	2.3%	-1.9%	-29.6%	5.4%
Telecom	-3.3%	-6.1%	-5.8%	-9.2%
DJ Stoxx 600	-1.7%	-2.8%	-8.2%	-9.3%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	3,935	14,550	20,086	23,173
% change			38.0%	15.4%
EBITDA	1,496	5,494	7,865	9,231
EBIT	0.0	0.0	0.0	0.0
% change				
Net income	-533.0	-219.7	222.5	1,282
% change		58.8%	NS	

	2014	2015e	2016e	2017e
Operating margin	4.5	8.4	18.0	20.3
Net margin	-13.5	-1.5	1.1	5.5
ROE	-20.3	-11.1	-0.8	18.6
ROCE	0.2	1.0	2.0	5.6
Gearing	375.5	693.0	782.1	635.3

(EUR)	2014	2015e	2016e	2017e
EPS	-1.80	-0.28	-0.02	0.74
% change	-	84.3%	92.0%	NS
P/E	NS	NS	NS	18.8x
FCF yield (%)	63.2%	0.2%	NM	7.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	8.8x	3.5x	3.2x	2.8x
EV/EBITDA	23.3x	9.3x	8.3x	6.9x
EV/EBIT	NS	NS	NS	NS



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BUY ratings 56.9%

NEUTRAL ratings 35%

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