

Numericable SFR

Price EUR29.50

EBITDA or EBITDA margin, that is the question (Full report will be published today)

Fair Value EUR28.4 (-4%)

NEUTRAL

Coverage initiated

Bloomberg	NUM FP
Reuters	NUME.PA
12-month High / Low (EUR)	48.0 / 28.1
Market Cap (EURm)	12,928
Ev (BG Estimates) (EURm)	27,324
Avg. 6m daily volume (000)	280.5
3y EPS CAGR	17.4%

We are initiating coverage of Numericable-SFR with a Neutral recommendation and Fair Value of EUR28.4. We are forecasting a still difficult year in 2016 for the group, but expect a recovery by 2017 driven by renewed investments and the change in management. But market consolidation will not be there to help.

ANALYSIS

- NC-SFR had a mixed year in 2015 due to a **strong focus on the EBITDA rate to the detriment of customer volumes** and hence the overall EBITDA generated further out. The impact of this strategy is likely to be felt over **2016, with sales set to drop a further 2.1% vs. -3.5% in 2015, and an increase in adjusted EBITDA of 3% after 20% in 2015.**
- The **relaunch of investments** initiated at the end of 2015, recent **management changes** and the associated **change in strategy and governance**, should help inverse the sales curve as of 2017. We are forecasting a **return to sales growth of 0.7% in 2017**, with a stabilised mobile network especially, and a recovery in the BtoB and wholesale businesses.
- We are forecasting **EBITDA of EUR4.400bn out to 2018**, with a level of **capex stabilised at EUR2bn**, after a catching up in 4G investments.
- Despite the need for refinancing, debt of **3.73x 2015 EBITDA looks sustainable** given the level of cash flow generated by the business, and we also believe that the need to move cash up to the holding company level is a good **dividend opportunity** for shareholders.

VALUATION

- Our DCF valuation yields a **Fair Value of EUR28.4** for NC-SFR, namely a discount of 3.1% relative to the current share price and a multiple of **7.2x our 2016e adjusted EBITDA**.

NEXT CATALYSTS

- Q1 2016 results on May 10th.

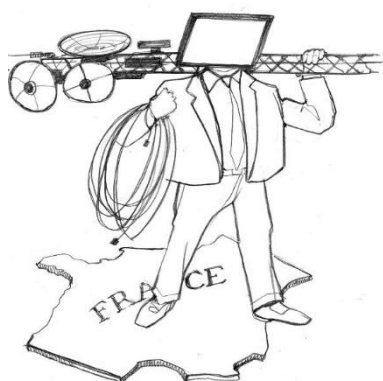
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	1 M	3 M	6 M	31/12/15
Absolute perf.	-11.8%	-22.4%	-16.6%	-11.9%
Telecom	-3.3%	-6.1%	-5.8%	-9.2%
DJ Stoxx 600	-1.7%	-2.8%	-8.2%	-9.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,039	10,808	10,886	11,054
% change		-2.1%	0.7%	1.6%
EBITDA	3,860	3,982	4,171	4,402
EBIT	0.0	0.0	0.0	0.0
% change				
Net income	682.0	649.3	821.8	1,102
% change		-4.8%	26.6%	34.1%

	2015	2016e	2017e	2018e
Operating margin	11.7	14.9	16.6	19.5
Net margin	6.2	6.0	7.5	10.0
ROE	15.9	13.0	14.2	16.0
ROCE	2.8	4.7	5.2	6.2
Gearing	337.5	292.8	239.5	187.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.45	1.37	1.74	2.35
% change	-	-5.2%	27.0%	34.5%
P/E	20.4x	21.5x	16.9x	12.6x
FCF yield (%)	5.8%	0.0%	4.7%	6.8%
Dividends (EUR)	5.40	0.00	0.00	0.00
Div yield (%)	18.3%	NM	NM	NM
EV/Sales	2.5x	2.5x	2.5x	2.3x
EV/EBITDA	7.1x	6.9x	6.4x	5.8x
EV/EBIT	NS	NS	NS	NS



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Distribution of stock ratings

BUY ratings 56.9%

NEUTRAL ratings 35%

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