

Numericable SFR

Price EUR28.91

Buying media assets: great marketing, equity story still to be written...

Fair Value EUR28,4 (-2%)

NEUTRAL

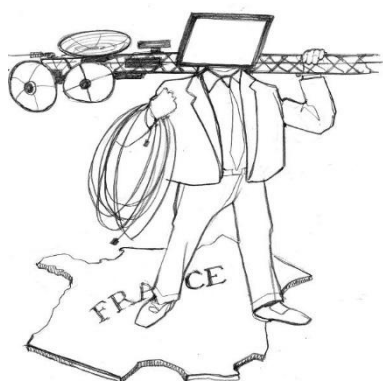
Bloomberg	NUM FP
Reuters	NUME.PA
12-month High / Low (EUR)	48.0 / 28.1
Market Cap (EURm)	12,667
Ev (BG Estimates) (EURm)	27,063
Avg. 6m daily volume (000)	277.0
3y EPS CAGR	17.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-20.6%	-16.9%	-22.3%	-13.7%
Telecom	0.7%	-2.3%	-9.8%	-6.5%
DJ Stoxx 600	3.6%	2.4%	-7.6%	-5.1%

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		NM	NM	NM
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	19.9x	21.0x	16.6x	12.3x
FCF yield (%)	5.9%	0.0%	4.8%	7.0%
Dividends (EUR)	5.40	0.00	0.00	0.00
Div yield (%)	18.7%	NM	NM	NM
EV/Sales	2.5x	2.5x	2.4x	2.3x
EV/EBITDA	7.0x	6.8x	6.3x	5.8x
EV/EBIT	NS	NS	NS	NS



NC-SFR announced yesterday the acquisition of media assets from Altice and Patrick Drahi's personal holding. Many new products deriving from these deals will soon be launched by the company, reinforcing its content offer and unique position as a media/telecoms convergent player. Following these acquisitions NC-SFR's net debt is set to increase by EUR575m, and we do not see the acquisition of NextRadioTV's stake as a requirement to deliver convergent offers. Also, although we acknowledge potential editorial, distribution and advertising synergies, we remain cautious on the value creation incurred by these deals, in a French market for Pay-TV and Press where it is still proving difficult to make money.

ANALYSIS

- SFR announced yesterday the acquisition of **Altice's 49% minority stake in NextRadioTV**, a French TV operator focusing on news, sports, business, high-tech and discovery with brands such as **BFM, RMC and 01net.com**. The proposed transaction values NextRadioTV at an **enterprise value of EUR741m** or 7.9x Adjusted EBITDA pro forma for synergies and tax losses carried forward.
- Moreover, SFR announced that it has entered into **exclusive negotiations to acquire Altice Media Group France**, partly owned by Patrick Drahi's personal holding and which publishes major national press titles such as **Libération, L'Express, L'Expansion, L'Etudiant** and **Stratégies**, and also operates an international news channel - **i24 News**. The proposed transaction values Altice Media Group France at an **enterprise value of EUR241 million** or 4.5x Adjusted EBITDA pro forma for synergies and tax losses carried forward.
- The transactions are to be **funded by a combination of SFR's own resources**. EUR100 million of the Altice Media Group France purchase price will be deferred by one year from closing. In our estimates (see below), net debt at NC-SFR will increase by EUR575m, ie +4%, and leverage will increase by **0.1x 2016e EBITDA**.
- SFR will then be organised into **three business units**: SFR Telecom, SFR Media, SFR Advertising. SFR Telecom will be headed by **Michel Paulin**, the other two units by **Alain Weill**.
- Subsequently, SFR will **launch a number of new content services** among which: **SFR Presse** (an application providing access to Altice Media Group titles), **SFR Sport 1 to 5**, (5 new sport channels offering the contents acquired by the group, including Premier League rights), **SFR News** (including two new channels BFM Sport and BFM Paris).
- Services such as SFR Presse and SFR Sport will **not be exclusively offered to SFR customers**, a **wholesale offer** will be available to other players such as Canal+ or other telecoms operators. We are **positive about this policy**, since we believe it is difficult to make significant profit out of expensive content on a captive customer base, in a tough market for Pay-TV such as France.
- In addition, although we acknowledge some **editorial synergies** allowing to launch new services on **available distribution platforms at limited marginal costs**, participating in the **reduction of churn**, we **believe value creation should remain limited**: Customers' **willingness to pay for digital press** is very **uncertain**, and Altice is operating in a **difficult French market for Pay TV** where premium content is expensive and leaders such as Canal+ or BeinSports are still struggling trying to make money.
- Nevertheless, we believe some material **synergies** could arise from the **pooling of advertising agencies**.
- As far the **transaction with NextRadioTV** is concerned: the same marketing opportunities would have been **possible without transferring the 49% stake** from Altice. NC-SFR's **EBITDA and cash will not be impacted** as the stake is not fully consolidated. We see this transaction also as a way for Altice to **deleverage its holding entities and move cash up from its subsidiary**. As already mentioned in our initiation report, minority shareholders in NC-SFR are **exposed to this moving around of assets** between the company and Altice, with the risk of **favouring the interests of the holding company** to the detriment of the daughter.
- We do not impact our Fair Value based on this deal, as the value of NextRadioTV's stake acquired by NC-SFR will be offset by an equivalent **increase in the company's net debt**, and we do not

include any significant EBITDA upside stemming from synergies, for the reasons explained above.

- As far the **transaction with NextRadioTV** is concerned: full year pro forma impact on NC-SFR's EBITDA is estimated at **+EUR53m** (assuming NC-SFR's synergy assumptions), and we expect very **little impact on earnings**. The company may nevertheless **benefit from fiscal impacts**. At this point, due to a lack of visibility on Altice Media Group financials we are not reviewing our fair value based on this deal.

Valuation of NC-SFR's stake in NextRadioTV– BG Estimates

NextRadioTV Valuation	EURm
EV	741
Estimated net debt (incl. acquisition of 39% of n°23)	60
Equity Value	681
Value of 49% stake	334

Impact of media transactions on NC-SFR's net debt – BG Estimates

	Net Debt (as of dec 31st 2015)	Proforma BG 2016e restated EBITDA	Leverage
- Before transactions with NextRadioTV and AMG	14 653	3982	3,68
- Incl. transaction with NextRadioTV	14 987	3982	3,76
- Incl. both transactions	15 228	4036	3,77

VALUATION

- We are sticking to our Fair Value of EUR28.4 with a NEUTRAL recommendation.

NEXT CATALYSTS

- NC-SFR Q1 results on 10th May.

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