

23rd May 2016

TMT

**Iliad**

Price EUR195.80

Said to consider Italian mobile tie-up with Sky.

Fair Value EUR212 (+8%)

**NEUTRAL**

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 175.5
Market Cap (EURm)	11,495
Avg. 6m daily volume (000)	110.6

#### ANALYSIS

- According to the Financial Times, Hutchison (3) and VimpelCom (Wind) are in talks with Iliad and Sky to address **regulatory concerns** over the merger between their local businesses. The two groups need to address worries over competition since their merger would create the largest mobile operator in Italy. Iliad and Sky have spoken to Hutchison and VimpelCom about **creating a fourth operator**, according to people with knowledge of the situation.
- We believe the merger is **more likely to go through than in the UK** since the two companies are in a difficult financial situation and **cannot invest aggressively**: 3 Italy is hardly making money, with 2015 EBITDA – CAPEX of -EUR170m, and Wind is heavily indebted with **Net Debt/EBITDA of 6x**.
- A tie-up between Iliad and Sky could make sense in a **media/telco convergence** move. Iliad could afford debt of **EUR5bn to EUR6bn and an equity fuelled investment**, and bring **innovative pricing** in a market where subscription offers, unlimited calls and 3P services are not much developed. But Iliad will need to address the question of **fixed infrastructure**, possibly relying on Sky's existing partnership with Fastweb, and **Xavier Niel's 15% option** in Telecom Italia's capital.

#### VALUATION

- We stick to our Fair Value of EUR212 with a Neutral recommendation.

#### NEXT CATALYSTS

- Decision from the EC on the Wind/Three merger expected by 18th August.

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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