

Upside potential, fundamentals unchanged.

Fair Value EUR212 (+25%)

BUY vs. NEUTRAL

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 170.2
Market Cap (EUR)	9,989
Ev (BG Estimates) (EUR)	11,548
Avg. 6m daily volume (000)	113.1
3y EPS CAGR	20.5%

Following the breakdown of merger talks between Orange and Bouygues in April, we downgraded our recommendation to Neutral and our Fair Value to EUR212. Since then, the share price has fallen to EUR170, hit first by the failure of French consolidation and then by Brexit, although the company has no exposure to the UK. Besides, we have updated our assumptions following Iliad's latest results, latest regulatory news and market outlook, but with no change in the fundamentals of our investment case and no significant impact on our Fair Value. We therefore think the stock has now regained enough upside potential to upgrade our recommendation to Buy. Our Fair Value remains at EUR212.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-14.1%	-27.1%	-21.2%	-22.7%
Telecom	-16.0%	-13.8%	-19.7%	-20.0%
DJ Stoxx 600	-11.7%	-7.9%	-15.7%	-15.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,414	4,671	4,931	5,159
% change		5.8%	5.6%	4.6%
EBITDA	1,490	1,668	1,886	2,094
EBIT	0.0	0.0	0.0	0.0
% change				
Net income	335.0	358.3	456.7	587.2
% change		6.9%	27.4%	28.6%

	2015	2016e	2017e	2018e
Operating margin	15.1	15.3	18.0	20.9
Net margin	7.6	7.7	9.3	11.4
ROE	12.7	12.1	13.4	14.8
ROCE	9.8	9.5	10.9	12.8
Gearing	45.2	52.4	43.2	27.9

(EUR)	2015	2016e	2017e	2018e
EPS	5.58	5.95	7.59	9.76
% change	-	6.7%	27.5%	28.6%
P/E	30.5x	28.6x	22.4x	17.4x
FCF yield (%)	NM	NM	1.1%	3.8%
Dividends (EUR)	0.38	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	2.5x	2.5x	2.3x	2.2x
EV/EBITDA	7.5x	6.9x	6.1x	5.3x
EV/EBIT	NS	NS	NS	NS

ANALYSIS

- Following the **breakdown of merger talks** between Orange and Bouygues, Iliad's share fell **15%** from EUR224 to EUR190 on 4th April. Since then the stock has lost an additional **10%**, falling to EUR170, mainly due to the **effect of Brexit**. The stock is now trading 20% below our Fair Value.
- We think there is **no justification for the Iliad share to be impacted by Brexit**. Iliad has **no business or FX exposure in the UK**, its activity is **100% French BtoC**, and there is **no financing concern** with the company. The stock is **now trading at 6.9x EBITDA**, which is **low compared to peers** with similar EBITDA growth profiles, as shown in the graph below.
- In addition, we have updated our assumptions taking into account **Iliad's latest results**, as well as **latest regulatory news and market outlook**. On the fixed market, following **recent price increases** from Bouygues Telecom, Orange and SFR, as well as the confirmation from Iliad that a **new premium box** will be launched by the end of the year, we have slightly **upgraded our fixed ARPU and net adds** estimates, as shown in the table below. On the mobile side, we **welcome the new 2G/3G roaming agreement** with Orange, as it **secures Free's operations until 2020**. Nevertheless, the **related constraints in terms of bandwidth** available for roaming customers, together with the latest Q1 trends, make us **adopt a more cautious trend on mobile net adds and ARPU**, as shown in the table below.
- The **rebalancing of projections between fixed and mobile** leads to only a **slight decrease in our EBITDA forecast, -0.4% in 2017 and -0.7% in 2018**, as shown in the table below, with **no impact on our Fair Value**.
- The **fundamentals in our investment case remain unchanged**: We believe, as shown in the past, that Iliad has **the right assets**, namely **innovation capacity, branding and direct distribution**, to keep on moving forward successfully. Its major challenges still include the **ability to compete in Fiber** and progressively move from a **volume-based to a value-based approach in mobile**.

VALUATION

- The stock is now trading at **6.9x EV/EBITDA** multiple.
- We stick to our Fair Value of EUR212, but we **upgrade our recommendation to BUY**.

NEXT CATALYSTS

- H1 results at the end of August.

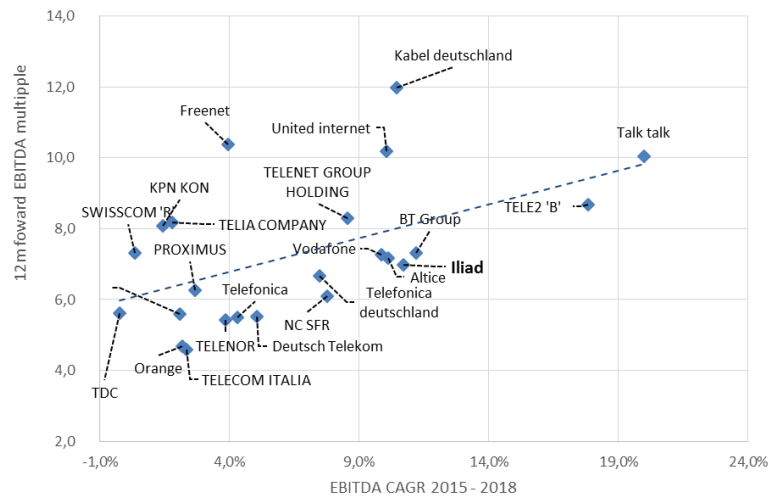


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Our new estimates

	Old estimates			New estimates			% change		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Revenues (EURm)	4 680	4 955	5 199	4671	4931	5159	-0,2%	-0,5%	-0,8%
EBITDA (EURm)	1 666	1 892	2 108	1668	1886	2094	0,1%	-0,4%	-0,7%
Mobile net adds	1 215 961	1 033 567	878 532	1 043 000	918 800	780 980	-14,2%	-11,1%	-11,1%
Mobile ARPU	12,0 €	12,1 €	12,3 €	12,1 €	12,1 €	12,3 €	0,6%	0,0%	-0,5%
Fixed net adds	235 233	186 788	149 431	254 437	196 128	156 902	8,2%	5,0%	5,0%
Fixed ARPU	35,5 €	35,6 €	35,6 €	35,6 €	35,7 €	35,8 €	0,2%	0,5%	0,7%

EV / EBITDA Multiples



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