

28th July 2016

TMT

SFR

Price EUR20.97

Prospect of 5,000 job cuts in 2017

Fair Value EUR28,7 (+37%)

NEUTRAL

Bloomberg	SFR FP
Reuters	SFRGR.PA
12-month High / Low (EUR)	43.8 / 20.3
Market Cap (EURm)	9,190
Avg. 6m daily volume (000)	285.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.4%	-27.3%	-40.9%	-37.4%
Telecom	9.4%	-6.4%	-9.7%	-12.5%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

	2015	2016e	2017e	2018e
P/E	14.5x	23.0x	12.3x	9.1x
Div yield (%)	25.8%	NM	NM	NM

ANALYSIS

- French daily Le Monde reports that the company intends to **cut 5,000 jobs** in a social plan in **2017** according to SFR unions. Out of 16,000 employees (end-2015, excluding the media branch), this represents about **a third of its headcount**. That SFR would reduce headcount in 2017 is **not a surprise**: Patrick Drahi and Michel Paulin have already clearly stated that the **workforce at SFR was too large**, and the company's **commitment to not cutting jobs expires in July 2017**. Note also that some plans are already ongoing at SFR's distribution subsidiaries, which might contribute to the 5,000 figure.
- Nevertheless, we believe the **final headcount reduction might be lower**. First, the number of 5,000 might only be a **starting point in the negotiations** with unions. Second, such a cut would bring the revenue per employee ratio to about **EUR1,000** based on 2015 results. As a comparison, Iliad which is very cost effective, achieved **EUR550** revenues per employee, and both companies have limited external workforces. As such, we are **not convinced** that cutting 5,000 jobs at SFR is **fully compatible with the company's premium ambitions**, or it should be compensated, to a certain extent, by the **external workforce**. Lastly, the timing will coincide with the French presidential elections, making the plan **visible and political**, but this impact should be **limited**.
- According to our estimates, total full-year OPEX savings, excluding one-off restructuring charges, could amount to **EUR200m** if job cuts reach 5,000. Here again, in this case the net financial impact might be **lower** if partially compensated by **external workforce and subcontracting**.

VALUATION

- We are sticking to our Fair Value of EUR28.7, with a Neutral recommendation.

NEXT CATALYSTS

- H1 results on 9th August.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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