

Iliad

Price EUR182.15

Said to enter exclusive talks to buy Italian mobile assets

Fair Value EUR212 (+16%)

BUY

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	236.3 / 170.2
Market Cap (EURm)	10,694
Ev (BG Estimates) (EURm)	12,253
Avg. 6m daily volume (000)	115.0
3y EPS CAGR	20.5%

According to Bloomberg, Iliad has entered exclusive negotiations with Hutchison and Vimplecom to buy wireless assets from their merger deal in Italy. We believe entering the Italian market will be more challenging for Iliad in comparison with Free mobile's major breakthrough in France, but we see some real opportunities for the group in Italy. At this point we are sticking to our Fair Value of EUR212 with a Buy recommendation.

ANALYSIS

- According to Bloomberg, Iliad has been selected to **buy wireless assets** (towers and frequencies) in Italy from Hutchison and VimpelCom in Italy, as the two companies are **seeking approval from the EU to merge their Italian operations**. Hutchison and VimpelCom entered exclusive negotiations with Iliad, said people familiar with the matter.
- We view Iliad seizing **external growth opportunities as positive**, as **organic French growth will eventually fade away**. We estimate Iliad's total acquisition at **EUR4.9bn**. This amount should be **enough to finance** the buy-out of **mobile towers and frequencies**, as well as **acquisition costs** necessary for the launch of Iliad on the Italian market.
- If it enters the Italian market, Iliad faces several challenges that should make it **more difficult than in France**: First, Iliad would **start from scratch**, with **no existing customer base** for **cross selling** lever and **no brand image** in the country, leading to **higher acquisition costs**. Second, the **mobile penetration rate is already very high** (~140%) and decreasing, and **mobile arpu is already very low** (~EUR12), with **limited economic space for a fall in prices**.
- Nevertheless, the Italian market offers **several opportunities**: it is a **large** (85m lines) and **mostly prepaid market**, with growth opportunities from the **development of unlimited calls, data usage 3P offers and fixed/mobile convergence**. Iliad should be able to strike a **roaming agreement on 4G** with the newly merged entity, and deal **fixed wholesale agreements** with TI and Enel on DSL and Fiber to compete on **emerging Triple Play offers and fixed/mobile convergence**.
- In all cases, we believe one should not underestimate Iliad's **pricing creativity, innovation capacity**, and know-how in terms of **direct distribution** and **viral marketing**. As a reminder, no French operator had been able to anticipate Free Mobile's major breakthrough in 2012.
- Although no outcome is certain at this time, we believe **an agreement from the EU is more likely than in the UK**: there is no mobile **network sharing agreement** between the parties involved, and the creation of a **4th mobile operator** could address EU's concerns about competition.

VALUATION

- At this point we are sticking to our Fair Value of EUR212 with a Buy recommendation.

NEXT CATALYSTS

- H1 results end of August

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.0%	-4.1%	-17.6%	-17.2%
Telecom	-6.0%	-5.1%	-11.0%	-13.3%
DJ Stoxx 600	-3.4%	-1.4%	-7.5%	-9.9%

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		NM	NM	NM
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	32.7x	30.6x	24.0x	18.7x
FCF yield (%)	NM	NM	1.0%	3.6%
Dividends (EUR)	0.38	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	2.7x	2.6x	2.5x	2.3x
EV/EBITDA	8.0x	7.3x	6.5x	5.6x
EV/EBIT	NS	NS	NS	NS



Analyst :
Thomas Coudry
33(0) 1 70 36 57 04
tcoudry@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Gregory Ramirez
Dorian Terral

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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