

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%

	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

Iliad has signed a network agreement with Hutchison and VimpelCom that would enable the group to enter the Italian market. The agreement is subject to the EU's approval. We believe the conditions disclosed are fairly good, although 800MHz 4G frequencies are missing. The operation would moderately increase Free's risk profile, and entering a new market from scratch will be challenging for Iliad. But based on the company's track record and waiting for further information on Iliad's plans in Italy, we still remain confident, at this stage, on Iliad's capacity to create value in the market.

ANALYSIS

- Yesterday Iliad announced it had signed an **agreement with Hutchison and VimpelCom** as part of the plan to merge their Italian subsidiaries, to **acquire the assets constituting the remedy package** proposed to the EU. The agreement is subject to the EU's approval as well as to the EU's approval of the merger transaction. At this point, we have **no certainty the transaction will get approval**, although we believe it has **more chances of going through than in the UK**.
- The agreement involves the **transfer of 3G and 4G frequencies for EUR450m**, an undertaking of **several thousand sites in dense areas**, an undertaking to bring into force the **RAN-sharing agreement or to acquire several thousand sites in rural areas**, and a **2G/3G/4G roaming agreement** on the merged network, for a period of **five years renewable for one further five-year period** at the initiative of Iliad.
- The frequencies transferred to Iliad represent between **10% and 15% of all available frequencies** on the market, and should allow Iliad to aim for **significant market share**, together with roaming. Nevertheless, the portfolio **does not include golden 800MHz 4G frequencies**, which is a drawback. In France, Iliad spent more than EUR900m to acquire low 700MHz frequencies. The combination of owned sites with RAN-sharing and roaming agreement will allow Iliad to **benefit from a national coverage** from the start. Iliad's 4G coverage should be close to the one of Tre, ie around **65% at start**, vs **92%** for TIM and **95%** for VF.
- Licence payments are to be **phased between between 2017 and 2019**, and Iliad plans to carry out investments over a period of **5-7 years**, entirely financed by the **group's cash and available facilities**. Iliad's cash position was EUR720m at the end of 2015, most of which should be used for the 700Mhz frequencies 2016 payment of EUR466m. Iliad's undrawn credit facilities, close to EUR2bn should be enough to finance the buy out of more than 5,000 sites. Leverage would then be increased to only **slightly above 2x 2016e EBITDA**.
- We think Iliad's plan in Italy **moderately increases the company's risk profile**. We view the **network agreements as fairly good to enter the market**, thanks to a **decent portfolio of frequencies** and to a mix of **network sharing agreements** and **owned sites** which could enable Iliad to offer **qualitative and extensive coverage from the start**, with **long visibility**. As reported in our note on 5th July, entering the Italian market should be **more challenging than launching Free mobile in France**, but we are rather confident the group should be able to **generate value on the Italian market**, based on its **track record in France**.

VALUATION

- At this stage, given the uncertainty about the EU's decision on the deal and the lack of visibility in terms of commercial ambitions from Iliad on the Italian market, we are sticking to our Fair value of EUR212, and maintaining our Buy rating.

NEXT CATALYSTS

- Decision from EU before 8th September
- H1 results end of August.



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