

Deep cost-cuts to offset pressure on top line; confidence still lacking

Fair Value EUR28.7 vs. EUR28.4 (+35%)

NEUTRAL

Bloomberg	SFR FP
Reuters	SFRGR.PA
12-month High / Low (EUR)	43.8 / 20.3
Market Cap (EUR)	9,291
Ev (BG Estimates) (EUR)	23,389
Avg. 6m daily volume (000)	281.8
3y EPS CAGR	16.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.3%	-27.4%	-38.6%	-36.7%
Telecom	2.0%	-6.8%	-5.6%	-12.9%
DJ Stoxx 600	4.0%	-1.6%	3.1%	-7.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,039	10,553	10,658	10,827
% change		-4.4%	1.0%	1.6%
EBITDA	3,860	3,977	4,266	4,501
EBIT	0,937	1,573	1,890	2,248
% change				
Net income	682.0	441.3	807.5	1,091
% change		-35.3%	83.0%	35.1%

	2015	2016e	2017e	2018e
Operating margin	11.7	14.9	17.7	20.8
Net margin	6.2	4.2	7.6	10.1
ROE	15.9	9.0	14.4	16.3
ROCE	2.8	4.7	5.3	6.7
Gearing	337.5	298.5	242.2	188.9

(EUR)	2015	2016e	2017e	2018e
EPS	1.45	0.91	1.70	2.31
% change		-37.0%	86.1%	35.8%
P/E	14.6x	23.2x	12.5x	9.2x
FCF yield (%)	8.1%	0.7%	7.2%	9.0%
Dividends (EUR)	5.40	0.00	0.00	0.00
Div yield (%)	25.5%	NM	NM	NM
EV/Sales	2.1x	2.2x	2.1x	2.0x
EV/EBITDA	6.1x	5.9x	5.3x	4.8x

We have revised our revenues and EBITDA forecast for 2016-2018, taking into account the latest trends and outlook on pricing and cost cutting. Deeper cost cuts should more than offset the pressure on SFR's ARPU; we increase our 2017 and 2018 EBITDA +2.3% vs our previous estimates. Nevertheless, the firm should still struggle commercially for another few quarters, and it should take time before investors regain confidence in the business. We have slightly upgraded our fair value to EUR28.7 from EUR28.4, and we reiterate our Neutral rating. Although the upside vs our Fair value is higher on SFR than on Altice, we see no short-term catalyst in France, waiting for the impact of new management and reinforced investment to kick in, and we believe the lack of confidence at the France level cannot be extrapolated to the whole Altice group.

ANALYSIS

- We have updated our revenue forecast taking into account **higher promotional intensity** than expected in Q1 2016, in fixed and mobile, as well as the **shift of price increases to mid Q2**, with **no full impact before Q3**. We forecast 2016 revenues down **-4.4% vs 2015**, below the firm guidance, **down 2.4%** below our previous estimates. Consequently, we have revised down our revenues forecast for 2017 and 2018 by **2.1%**.
- Offsetting the pressure on revenues, 2016 cost cutting should be **faster and deeper** than we expected, with additional cost cutting of **EUR200m** expected by the end of year, in addition to the **full year effect of cost cutting already visible in Q1 results**. Our **2016 EBITDA forecast remains practically unchanged at EUR3.977bn**. Taking into account the full year effect of 2016 cost savings and additional savings from the launch of a redundancy plan in H2 2017, we have updated our EBITDA forecast for 2017 and 2018, **+2.3%** vs our previous estimates.
- We have **updated the cost of debt from 4.9% to 5.4%** following H1 refinancing operations, and we are only slightly increasing our **Fair Value to EUR28.7 from EUR28.4**.
- At this stage, we have not yet included the impact of the acquisition of Altice Media Group and NextRadioTV in our valuation: we forecast a net debt impact of **EUR940m**, and a full year **EBITDA impact of EUR65m**.

VALUATION

- SFR is trading at **5.9x 2016 EBITDA**, which is low in comparison with the consensus' expected **2016-2018 EBITDA CAGR of 7.7%**. We believe the market discount stems from **uncertainty** about the firm's ability to achieve **sustainable top line and commercial turnaround**, as assumed in our estimates. We do not see any strong catalyst before Q3 2016 results at least, and no significant commercial improvement before H1 2017 at best, with the effect of **new management and reinforced investment** starting to kick in. We reiterate our **Neutral rating**.

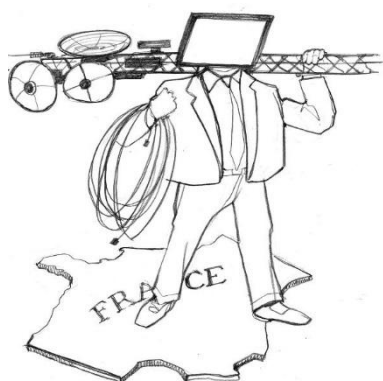
NEXT CATALYSTS

- H1 results on August 9th.

Updated SFR forecasts

	New estimates						Old estimates			% change			
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	FY 2017	FY 2018	FY 2016	FY 2017	FY 2018	FY 2016	FY 2017	FY 2018
Revenues	2573	2626	2660	2694	10553	10658	10827	10808	10886	11054	-2.4%	-2.1%	-2.1%
YoY growth	-6.1%	-5.6%	-4.1%	-1.8%	-4.4%	1.0%	1.6%	-2.1%	0.7%	1.6%			
Adj.	851	972	1071	1082	3977	4266	4501	3982	4171	4402	-0.1%	2.3%	2.3%
EBITDA													
YoY growth	-9.0%	-7.4%	3.7%	28.6%	3.0%	7.3%	5.5%	3.2%	4.7%	5.5%			

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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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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
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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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