

Sector View

Telecom services

	1 M	3 M	6 M	31/12/15
Telecom	-7.4%	-6.9%	-12.7%	-12.7%
DJ Stoxx 600	-5.1%	-2.3%	-9.8%	-9.8%

*Stoxx Sector Indices

Companies covered

ALTICE	BUY	EUR16.3
Last Price	EUR13.48	Market Cap. EUR14,751m
ILIAD	BUY	EUR212
Last Price	EUR182.5	Market Cap. EUR10,714m
NUMERICABLE SFR	NEUTRAL	EUR28.4
Last Price	EUR22.615	Market Cap. EUR9,911m
ORANGE	BUY	EUR13.59
Last Price	EUR14.655	Market Cap. EUR38,983m



Feedback from ARCEP conference: job is done on pricing, time for pro-investment policy.

Yesterday ARCEP held an analyst conference in Paris. The authority insisted on its pro investment focus, saying the job had now been done on pricing. The main subjects include promoting the roll out of fibre, developing data-driven regulations and intensifying competition in the BtoB segment. Although we view ARCEP's policy as globally positive for the sector, we see it as particularly favourable to Orange, and much less so to SFR.

ANALYSIS

- ARCEP's president Sebastien Soriano declared **"the job is now done on pricing"**, as well as on the **quality** of the networks. On the contrary, ARCEP observed that much still needs to be done in terms of **coverage**. France ranks no. 24 in Europe in 4G coverage, and no. 29 in fixed very high speed coverage. The regulation framework should be very **"pro investment"**, in order to fill the gap with other European countries. **"Competition has been too much focused on prices"** Soriano said.
- **"Competition is not against investment"** Sebastien Soriano said, highlighting the fact that the previous regulation cycle had managed to **develop infrastructure competition**. In terms of market structure, Sebastien Soriano said **"two players is not enough"**, implying a move from four to three was acceptable under appropriate conditions to safeguard active competition.
- ARCEP reminded that it has **no power on retail pricing**, and cannot ensure monetisation of innovation and investment. Nevertheless, ARCEP wants to make sure consumers have the **right information available on service quality and coverage** to make **educated choices**. To this end, ARCEP will develop **"data driven regulation"**, developing tools to provide end users with accurate information based on open data sources. The first maps will be available by the end of 2016. By making this type of information available, ARCEP hopes operators that invest the most will be able to **better monetise their investment**.
- ARCEP wants to **accelerate competitive deployments of fibre networks**, in particular in very dense areas. **"We do not want to stop Orange, but we want the others to be more present"** Sebastien Soriano said. Addressing in particular **concerns from Iliad and Bouygues Telecom**, ARCEP will soon launch a **new consultation on the regulatory framework for fibre deployment**, aimed at identifying whether adjustments should be made. In addition, ARCEP has launched a consultation on **geographical adjustment of unbundling prices**, with the aim of providing incentives for the migration from copper to fibre.
- In **BtoB, ARCEP wants more competition** to emerge against Orange and SFR. ARCEP says it has **no specific market share targets**, its goal is to **accelerate and facilitate the transition of SMEs to the digital economy** by **encouraging lower prices**, in particular in fibre connections. ARCEP wants to seize the opportunity of FTTH roll-out to **promote a national fibre wholesale offer** and encourage the **emergence of a strong 3rd wholesale operator**. ARCEP said it **already has contacts** with entrepreneurs which are interested in playing this role.
- ARCEP said **telecom/media convergence** could **"raise some issues" if the media side became dominant** in the connectivity offer. It also stated that too much **content exclusivity** led to a **bias in competition and restricted fluidity on the market** by increasing switching costs. Sebastien Soriano said **"ARCEP is not in favour of exclusivity"**. He added the ARCEP, the Autorité de la Concurrence and the CSA shared the same view and they had been **"very clear"** with Altice about their position. **"Altice is taking its responsibilities"** Soriano said.
- We view ARCEP's policy as **globally positive for the sector**, aiming at putting in place **the right environment for investment and monetisation** of innovation. But more precisely, we see most of it as being **especially favourable to Orange**: promoting operators which invest the most, ensuring monetisation of innovation through data-driven regulations, increasing unbundling prices, differentiating fibre vs cable, challenging media/telecom convergence strategies... Even in BtoB, Orange could amortise increased competition by regaining on the fibre wholesale side part of the market share lost on the end-user side. On the other hand, regulations appear **much less favourable to SFR**.

VALUATION

- We are making no changes to our recommendations and Fair Values on the sector.

NEXT CATALYSTS

- End of consultation on geographical adjustment of LLU prices beginning of September. End of consultation on the outcomes and prospects of the regulation of wholesale fixed markets mid-September.

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SELL ratings 9.5%

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