

3rd August 2016

TMT

SFR

Price EUR21.15

To offer generous conditions in a massive voluntary redundancy plan

Fair Value EUR28,7 (+36%)

NEUTRAL

Bloomberg	SFR FP
Reuters	SFRGR.PA
12-month High / Low (EUR)	43.8 / 20.3
Market Cap (EURm)	9,269
Avg. 6m daily volume (000)	287.7

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.0%	-26.0%	-41.7%	-36.9%
Telecom	-1.0%	-5.4%	-11.2%	-13.4%
DJ Stoxx 600	2.3%	-0.5%	-0.5%	-7.1%

	2015	2016e	2017e	2018e
P/E	14.6x	23.2x	12.4x	9.2x
Div yield (%)	25.5%	NM	NM	NM

ANALYSIS

- Management yesterday confirmed its objective of **5,000 job cuts**, ie ~30% of the total internal workforce at SFR Group. Departures will be on a **voluntary basis**, and **spread between 2017 and 2019**. The proposed plan, which is **still in negotiations** with trade unions, is said to offer the same conditions as the one launched in 2013, i.e. **2.5 months of gross salary par year of seniority** in the firm.
- If the above conditions are confirmed, we believe the plan should be **widely subscribed to**. According to our estimates, run rate OPEX savings should exceed **EUR200m**, with a **payback of approximately two years** of the departure allowances. **Several hundred million euros in provisions** should be accounted for in 2016 and 2017, with most cash payments in 2017 and 2018.
- In the medium term, we believe the plan should **help eliminate redundancy and streamline the organisation**, for more **cost and operational efficiency**. Nevertheless, we are questioning the **short term operational impact** of these announcements and reorganisations at a time when SFR needs to regain momentum and focus on commercial efficiency. We are also questioning whether such a massive plan is **compatible with the company's premium ambitions**, and we believe **incremental external workforce** and subcontracting as well as **investment in the simplification of information systems** and process might be necessary.

VALUATION

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

NEXT CATALYSTS

- H1 results on 9th August.

Thomas Coudry, tcoudry@bryangarnier.com



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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BRYAN, GARNIER & CO

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

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