

Q2 financial results slightly above expectations, but BtoC still struggling.

Fair Value EUR28,7 (+37%)

NEUTRAL

| | |
|----------------------------|-------------|
| Bloomberg | SFR FP |
| Reuters | SFRGP.PA |
| 12-month High / Low (EUR) | 42.6 / 20.0 |
| Market Cap (EUR) | 9,172 |
| Ev (BG Estimates) (EUR) | 23,270 |
| Avg. 6m daily volume (000) | 289.7 |
| 3y EPS CAGR | 16.8% |

This morning SFR has published Q2 2016 results. Revenues and EBITDA are slightly above expectations, but the BtoC business is still struggling, in particular on the mobile side. Improving trend in BtoB and very significant improvement in wholesale offset the poor BtoC performance. The BtoC trend is expected to improve in Q3 and Q4. Guidance of better revenue trend vs 2015 is confirmed.

ANALYSIS

- **Total NC-SFR revenues** came out at **EUR2.781bn**, down **-4.3% yoy**. Excluding media assets revenue declined -4.6% to EUR2.655m vs consensus at EUR2.648bn, and vs -6.1% in Q1 2016. **Adjusted EBITDA** reached **EUR999m** down **-6.8% yoy**. **Excluding media assets, adjusted EBITDA** reached **EUR993m**, down -6.3% yoy, vs consensus at EUR966m.
- **BtoC is still very much under pressure**. BtoC revenues are down -5.2% yoy vs -4.9% in Q1 2016, **BtoB trend is improving**, with revenues falling -4.5% yoy vs -7.7% in Q1 2016, **wholesale performance is much better**, revenues fell only -1.2% yoy vs -10.1% in Q1 2016.
- **On the mobile side, the business is still very much under pressure in Q2, although trend is expected to improve in Q3 and Q4**. Q2 BtoC postpaid net adds worked out to -199k, vs -28k in Q1 2016 and -314k in Q2 2015. Mobile ARPU is down -1.7% YoY vs stable yoy in Q1, up 2.2% on a sequential basis, due to seasonality.
- **On the fixed BtoC side, fiber performance is a little disappointing, but ARPU is on good trend**. Q2 net adds stood at -57k, vs -61k in Q1 2016 and -119k in Q2 2015. Fiber net adds reached 44k, vs 66k in Q1 2016 and 70k in Q2 2015. ARPU is up 0.8% yoy vs -1.2% in Q1.

VALUATION

- We stick to our fair value of EUR28.7 with Neutral recommendation.

NEXT CATALYSTS

- Q3 results on November 8th.

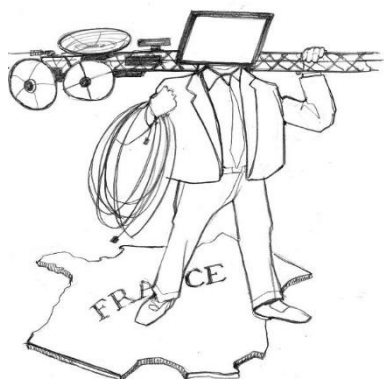
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| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|------|--------|--------|----------|
| Absolute perf. | 2.9% | -22.4% | -31.6% | -37.5% |
| Telecom | 2.0% | -2.9% | -1.5% | -13.1% |
| DJ Stoxx 600 | 4.3% | 3.0% | 8.6% | -6.6% |

| 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 | 0.0 | 0.0 | 0.0 | 0.0 |
| % 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 | 14.4x | 22.9x | 12.3x | 9.1x |
| FCF yield (%) | 8.2% | 0.8% | 7.2% | 9.1% |
| Dividends (EUR) | 5.40 | 0.00 | 0.00 | 0.00 |
| Div yield (%) | 25.8% | NM | NM | NM |
| EV/Sales | 2.1x | 2.2x | 2.1x | 2.0x |
| EV/EBITDA | 6.1x | 5.9x | 5.3x | 4.8x |
| EV/EBIT | NS | NS | NS | NS |



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| | |
|---------|---|
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