

Allice

Price EUR15.45

Exchange offer for the buy out of SFR minorities: an opportunity for both sides

Fair Value EUR16,5 (+7%)

BUY

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	24.5 / 10.0
Market Cap (EUR)	16,901
Ev (BG Estimates) (EUR)	66,773
Avg. 6m daily volume (000)	1 665
3y EPS CAGR	

Together with enhanced vertical integration and implementation of a remuneration scheme between Allice and its subsidiaries, the proposed exchange offer should help Allice streamline its structure and increase its operational and financial efficiency. We see this operation as positive for both SFR and Allice shareholders. We stick to our Buy recommendation and Fair Value of EUR16.5 for Allice.

ANALYSIS

- As a reminder, Allice is proposing an **exchange offer for SFR group shares**, in order to **simplify its ownership structure and enhance organisational flexibility**. The offer is **eight Allice class A shares for five SFR group shares**. The exchange offer is not subject to any ownership threshold. The operation is expected to be launched on **22nd September** and close on **20th October 2016**. Allice presents the offer as an exchange opportunity for SFR shareholders, not as a minority buy out, and says it has no problem with minority leakage.
- We think this offer is positive from Allice's standpoint: the **premium is quite limited** (+2.6% based on 2nd September stocks prices), the **timing is right** since SFR's share is at a low point, according to our estimates the **operation should be earnings enhancing** for Allice, and we believe the operation should give the group **more flexibility in managing its cash and optimising its fiscality**. Allice said this operation would enable the group to transform into an **integrated group, simplify its structure and support cost cutting plans**. Also Allice mentioned that since French consolidation hopes had gone there was no reason left in keeping SFR aside.
- As announced yesterday, the operation will help Allice's plan to make its core strategic operational and technical capabilities available to its subsidiaries in a **more centralised manner**. As part of this industrial, commercial and financial strategy, Allice announced the **acquisition of technical and customer service providers Parilis and Intelcia**, for a total value below **EUR200m**. This **vertical integration** should help Allice **secure some technical and operational capabilities**. Also part of this strategy, Allice intends to implement **specific remuneration models with Allice's subsidiaries**, in the possible form of **revenue sharing agreements** remunerating Allice for the central services offered to the subsidiaries. It is too early at this point to specify the conditions for these remuneration agreements Allice said.
- We think most SFR shareholders **should tender to the exchange offer**, although the proposed premium appears fairly low: the operation should enable SFR shareholders to capture both **future benefits from expected turnaround at SFR and value creation potential at the Allice level**, thanks in particular to the US, while benefitting from increased liquidity. Nevertheless, SFR shareholders will need to agree to become shareholders of a **more levered company**, with a **5.8x** net debt / EBITDA ratio at Allice vs **4.0x** at SFR. We also believe SFR's shareholders interests are **better off if fully aligned with those of majority shareholder Allice**. Finally, we think the implementation of the new remuneration scheme between Allice and SFR might be **detrimental to SFR's stand alone** financials.

VALUATION

- We stick to our Fair Value of EUR16.5 and Buy recommendation.

NEXT CATALYSTS

- Opening of the exchange offer expected on 22nd September.
- Q3 results on 8th November.

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