

Sector View

Telecom services

	1 M	3 M	6 M	31/12/15
Telecom	-4.9%	-2.1%	-12.5%	-16.6%
DJ Stoxx 600	-1.7%	5.2%	-0.2%	-7.0%

*Stoxx Sector Indices

Companies covered

Company	Recommendation	Fair Value
ALTICE	BUY	EUR16,5
Last Price	EUR15,01	Market Cap. EUR16,425m
ILIAD	BUY	EUR212
Last Price	EUR186,8	Market Cap. EUR10,971m
NUMERICABLE SFR	NEUTRAL	EUR28,7
Last Price	EUR24,7	Market Cap. EUR10,825m
ORANGE	BUY	EUR17,1
Last Price	EUR13,1	Market Cap. EUR34,847m



Consolidation talks, again and again...

According to BFM Business, consolidation talks have started again between the French operators. Bouygues and SFR have categorically denied. We believe the rationale behind a consolidation on the French telecoms market remains intact, but we still have difficulties identifying the appropriate scheme. Although we do not think any major move should happen in the very short term, we view the consolidation as a free option for Orange, Iliad and Altice.

ANALYSIS

- On Friday, BFM Business said talks between operators concerning the French telecoms market consolidation have resumed. According to the TV channel, Stephane Richard said “**discussions on the consolidation of the market resumed**”. Orange is **not the originator** of these talks, but is willing to play the role of facilitator and acquire some assets”. BFM Business said several industrial sources confirmed the information. According to one of these, the talks are still **very preliminary**, and the **scheme of the deal is different** from the one discussed in the beginning of the year.
- A spokesman for SFR said they had had **no discussions** with anybody on this matter. Bouygues issued a press release saying they “**categorically denied** having started discussions with other telecom operators with a view to consolidating the French market”. On Tuesday, Philippe Marien, deputy CEO of Bouygues, declared “the merger talks are over. Bouygues remains **ready to participate** in the consolidation, but this time **only as a buyer**”.
- At this point, it is **difficult to identify the right scheme for a prospective deal**. Bouygues does not want to **get out of telecoms**, as recently mentioned again. The Orange/Bouygues merger should be **off the table** for at least some time, Martin Bouygues and Xavier Niel seem **irreconcilable**, and SFR does not appear as a **natural seller**. Indeed, Altice is currently trying to buy out minorities at SFR, at a low valuation point, and SFR is still in the middle of an integration and turnaround phase.
- Nevertheless, the **rationale behind a consolidation remains intact**. **Competition is fierce**, ARPUS are still under pressure, and operators need to **invest heavily** in fibre and mobile infrastructure. **A market repair needs to happen**: either through a return to reason with healthier pricing policies, or through market consolidation.

VALUATION

- We have a BUY recommendation on Altice, Orange and Iliad, and Neutral on SFR. In our view, consolidation is a free option for Altice, Orange and Iliad, which should benefit the most.
- We are stick to our Fair Values of EUR17.1 for Orange, EUR16.5 for Altice, EUR28.7 for SFR and EUR212 for Iliad.

NEXT CATALYSTS

- Q3 publications starting in late October.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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