

7th October 2016

TMT

SFR Group

Price EUR24.85

Cost cutting to offset pressured top line

Fair Value EUR29,7 vs. EUR28,7 (+20%)

NEUTRAL

Bloomberg	SFR FP
Reuters	SFRGP.PA
12-month High / Low (EUR)	38.1 / 20.0
Market Cap (EUR)	10,890
Avg. 6m daily volume (000)	346.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	19.5%	-15.0%	-25.8%
Telecom	-4.9%	-0.1%	-8.1%	-17.2%
DJ Stoxx 600	-1.9%	7.5%	3.7%	-6.3%

	2015	2016e	2017e	2018e
P/E	17.1x	61.3x	29.1x	10.3x
Div yield (%)	21.7%	NM	NM	NM

ANALYSIS

- Although risks concerning operating efficiency remain **unchanged** at this time, the **full year effect of 2016 cost-cutting initiatives** in 2017, as well as **significant savings expected from the redundancy plan** should help **offset top line pressure** and leave time for investments and the operational turnaround to kick in.
- The challenge of **combining top line recovery and strong cost cutting** remains intact. Accordingly, we have downgraded our assumptions for mobile and fixed net adds over 2017, but we have impacted our model for France with a run-rate of **EUR335m in OPEX savings in 2018**, of which **EUR202m** in 2017, and associated restructuring costs of **EUR800m** spread over 2016 and 2017.
- We have also included in our model the **new media assets** acquired by SFR (Altice Media Group and NextRadioTV), accounting for an extra **EUR80m** in annual EBITDA post synergies.
- At this point, we have **not included** any new specific remuneration model between SFR and Altice which could **negatively** impact SFR.
- More detailed information is provided in our Altice update "Lower risk profile" published today.

VALUATION

- We have upgraded our Fair Value to EUR29.7 vs EUR 28.7, and are sticking to our Neutral recommendation.

NEXT CATALYSTS

- Q3 results on 10th November.

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Distribution of stock ratings

BUY ratings 56,5%

NEUTRAL ratings 31,8%

SELL ratings 11,7%

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