

**Bouygues**

Price EUR29.52

**Do not forget construction! (full report released today)****Fair Value EUR35 (+19%)****BUY**

Coverage initiated

Bloomberg	EN FP
Reuters	BOUY.PA
12-month High / Low (EUR)	37.3 / 25.0
Market Cap (EURm)	10,246
Ev (BG Estimates) (EURm)	12,491
Avg. 6m daily volume (000)	872.8
3y EPS CAGR	27.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.6%	12.3%	-0.2%	ns
Telecom	-4.5%	-4.2%	-9.6%	-17.5%
DJ Stoxx 600	-1.5%	2.2%	2.2%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	32,428	31,906	32,822	34,018
% change		-1.6%	2.9%	3.6%
EBITDA	2,411	2,637	2,888	3,136
EBIT	688	748	1,145	1,387
% change		NM	NM	NM
Net income	480.0	400.6	741.8	913.0
% change		-16.5%	85.2%	23.1%

	2015	2016e	2017e	2018e
Operating margin	2.1	2.3	3.5	4.1
Net margin	1.5	1.3	2.3	2.7
ROE	5.1	4.8	8.8	10.8
ROCE	3.1	2.9	5.3	6.5
Gearing	81.4	87.7	86.7	84.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.18	1.04	1.93	2.42
% change		-11.7%	84.8%	25.8%
P/E	25.0x	28.3x	15.3x	12.2x
FCF yield (%)	NM	4.5%	6.8%	7.8%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	5.4%	5.4%	5.4%	5.4%
EV/Sales	0.4x	0.4x	0.4x	0.4x
EV/EBITDA	5.2x	4.7x	4.3x	4.0x
EV/EBIT	NS	NS	NS	NS

We are initiating coverage of Bouygues with a BUY recommendation and a fair value of €35. In our view the current share price factors in the reassuring outlook for Bouygues Telecom but underestimates the positive trends linked to the construction activities. Supported by these two activities, Bouygues should return to FCF generation of around €900m by 2019. Without taking into account a possible consolidation move for the telecoms market in France.

**ANALYSIS**

- In **construction**, the Bouygues Group should benefit from the **combination of several favourable factors**: a gradual **improvement in road works in France**, whose cycle seems to have bottomed out (market down by -1% YTD, August up by 15%), together with the **positive effect of FAST** in the United States; the **ramp-up of Grand Paris infrastructure project** (EUR30bn of works by 2030) for the Construction division; and the prevailing **very strong trends for property development** (Bouygues H1 2016 reservations +22% in France), for which the Group is the co-leader in France. Almost all the entities should report higher operating margins as of 2016, for an overall solid top line.
- In **telecoms**, Bouygues Telecom could prove capable of **exceeding its EBITDA margin target of 25%** by 2017 in our view, driven by a **positive trading backdrop and strong sales growth**, enabling FCF generation of around **EUR300m by 2019**. However, constrained by a net annual capex budget limited to €800m, Bouygues Telecom will continue to suffer from a long-term **structural deficit in the optical fibre market**, and thus **profitability under pressure**, limiting the EBITDA margin below **30%** by 2020.
- Furthermore, in our view the stock is no longer pricing in the real **opportunity for telecoms consolidation** in France despite the fact that this still remains **possible over the medium term**.

**VALUATION**

- We are initiating coverage of Bouygues with a BUY recommendation and a fair value of EUR35.

**NEXT CATALYSTS**

- Bouygues Q3 results on 16<sup>th</sup> November.

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**Analyst :**  
Thomas Coudry  
33(0) 1 70 36 57 04  
tcoudry@bryangarnier.com



Eric Lemarié  
33(0) 1 70 36 57 17  
elemarie@bryangarnier.com

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## Distribution of stock ratings

BUY ratings 72%

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15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
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	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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