

Allice

Price EUR16.25

Delivering simultaneous revenue and EBITDA growth with significant FCF generation.

Fair Value EUR19 (+17%)

BUY

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	17.4 / 10.0
Market Cap (EUR)	17,782
Ev (BG Estimates) (EUR)	66,363
Avg. 6m daily volume (000)	1 570
3y EPS CAGR	

Yesterday evening Allice published Q3 2016 results above expectations. The group generated significant FCF as well as a good topline trend, with revenues back to growth at the group level. EBITDA growth accelerated and deleveraging is really kicking off. The cash impact of heavy content acquisitions is not very clear at this time and further details are required. The US continued to perform well, achieving significant revenue and EBITDA growth at the same time, and the trend is improving as expected in France although the commercial turnaround is not there yet. All guidance is confirmed.

ANALYSIS

- Revenue back to growth, EBITDA growth and deleveraging accelerating, but heavy content costs in CAPEX.** Total group revenues came out at **EUR5.889bn**, vs consensus at **EUR5.850bn**, stable yoy (+0.2% on cc basis) vs -2.6% in Q2 2016. Adjusted EBITDA reached **EUR2.326bn**, vs the consensus at EUR2.311bn, up **8.3%** yoy vs +2.7% in Q2 2016. Excluding capitalised content, EBITDA-CAPEX reached **EUR1.376.9bn**, up **13.9%** yoy, vs consensus at EUR1.235bn, driven by the USA, with Cablevision in particular up 135.1%, with lower than expected capex. In addition, **EUR408m** in content costs were recognised as capex, to be cashed out and amortised over several years, according to a schedule still to be provided by the company. If added back to EBITDA, the impact could be significant: only taking into account Premier League's agreement, the equivalent EBITDA impact could be ~EUR25m par quarter.
- France: as expected, results were mixed with EBITDA back to growth and ARPU trends improving thanks to price increases and probable VAT effects, but still low commercial performance.** Standalone revenues came out at **EUR2.802bn**, down **-2.4%** yoy, **-2.6%** excluding media assets vs -4.5% in Q2 2016, in line with the consensus. On a consolidated basis, adjusted EBITDA stood at **EUR1044m**, up **0.6%** yoy, vs -3.8% in Q2, **-3.7%** below consensus. More detailed information and analysis is provided in our SFR Q3 2016 results report published today.
- US still achieving revenues and EBITDA improvement simultaneously, well above expectations.** US revenues came out at **EUR2.020bn**, up **3.3%** yoy, vs stable in Q2 and consensus at EUR1.991bn, with Suddenlink revenues up **6.3%** and Optimum up **2.2%**. Adjusted EBITDA reached **EUR786m**, vs consensus at EUR731m, up **28.2%** yoy, with Suddenlink up **20.4%** and Optimum up **32.6%**. USA capex was well under expectations, **down 38% yoy**. This is probably due to the handover to Allice, and we believe it cannot to be extrapolated over time.
- Other international subsidiary still performing well.** In Portugal, revenues came out at **EUR578m**, down **-0.8%** yoy (up 1.2% excl. regulatory impacts, for the first time in 8 years) vs -4.4% in Q2 2016, vs consensus at EUR563m. Adjusted EBITDA reached **EUR266m**, up **0.5%** yoy, vs consensus at EUR272m. Overall Allice international adjusted EBITDA is up **1.2%**, to **EUR508m**, negatively impacted by upfront costs related to the content division.
- As a consequence of these good results, leverage was reduced from 6.0x to 5.4x for Net Debt/EBITDA (on a the last two quarters basis). All guidance has been confirmed.**
- Allice said it had **nothing specific in the radar as of today regarding possible acquisitions in the US**. Nevertheless, the group said it was looking at ways to **unlock potential value at the US level**, with possible changes in the capital structure. We believe an IPO of the US activities could be a way to achieve such a value externalisation.

VALUATION

- We stick to our Fair Value of EUR19, with a Buy recommendation.

NEXT CATALYSTS

- Full year 2016 results expected mid March 2017.

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