

**Bouygues**

Price EUR30.16

**Solid profitability, outlook confirmed****Fair Value EUR35 (+16%)****BUY**

Bloomberg	EN FP
Reuters	BOUY.PA
12-month High / Low (EUR)	37.3 / 25.0
Market Cap (EURm)	10,470
Ev (BG Estimates) (EURm)	12,715
Avg. 6m daily volume (000)	840.7
3y EPS CAGR	27.1%

**Bouygues has published Q3 results this morning, with revenues slightly below expectations, but very solid current operating profit, 6% above consensus. Decent top line performance for construction activities in Q3, while profitability is improving. Bouygues Telecom's recovery is still on track with accelerating services revenue growth and EBITDA still growing almost 20% yoy, above consensus. All guidance is confirmed.**

**ANALYSIS**

- **Revenues slightly below expectations, but good current operating profit.** Total group revenues came out at **EUR8.444bn**, vs consensus at **EUR8.573bn**, down 3.2% vs -2.8% in Q2 2016. Current operating profit reached **EUR508m**, vs the consensus at EUR476m, up 6.3% yoy vs +10.5% in Q2 2016. Net income reached **EUR373m**, vs the consensus at EUR255m, down **-0.8%** yoy vs +32% in Q2 2016.
- **Bouygues Telecom revenues from network accelerating, fast EBITDA growth. The recovery plan is still fully on track.** Q3 revenues came out at **EUR1,212bn**, up **+4.2%** yoy (of which **+6.6%** on sales from network), compared with +6.1% yoy in Q2 (of which +5.5% on sales from network). Q2 EBITDA reached **EUR289m**, up **19.4%** yoy vs +27.8% in Q2, and current operating profit was positive at **EUR86m** vs EUR45m in 2015. **Mobile Services revenues are accelerating thanks to stabilizing ARPU.** Mobile sales from network are up **6.1%** in Q3, vs 4.1% in Q2. **Fixed commercial performance is very good, but ARPU is still under strong pressure.** Fixed sales from network are up **8.3%** in Q3, vs 9.4% in Q2.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.2%	7.9%	1.8%	ns
Telecom	-4.1%	-9.9%	-14.5%	-21.0%
DJ Stoxx 600	-0.2%	-2.0%	1.3%	-7.3%

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	0.0	0.0	0.0	0.0
% 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	25.6x	28.9x	15.7x	12.5x
FCF yield (%)	NM	4.4%	6.6%	7.6%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	5.3%	5.3%	5.3%	5.3%
EV/Sales	0.4x	0.4x	0.4x	0.4x
EV/EBITDA	5.3x	4.8x	4.4x	4.1x
EV/EBIT	NS	NS	NS	NS

**Bouygues Telecom main financial data**

EURm	Q1	Q2	Q3	Q1 y/y %	Q2 y/y %	Q3 y/y %
Sales from network	971	1004	1043	6,4%	6,1%	4,2%
ow Fixed	257	268	274	10,8%	9,4%	8,3%
ow Mobile	714	736	769	2,0%	4,1%	6,1%
EBITDA	146	262	289	23,7%	27,8%	19,4%

Source : Company Data

- Q3 revenues for **construction activities** are down -4.4% (up 6% on a l-f-l basis, according to our calculations) at EUR6836m (2% below zonefinance consensus) and current EBIT stands at EUR443m (6% above consensus), i.e. a 6.5% margin (+ 45bps y/y). By division, Bouygues Construction continue to be tepid (flat organic revenues in Q3 like in Q2 and Q1) but margin is stabilizing (flat at 2.9%). Roadworks subsidiary Colas profitability recovery continues, with a strong increase of the current EBIT margin (+106bps at 9.5%), while organic growth is improving (flat in Q3 vs -6% in H1). Finally, Bouygues Immobilier top line trends continue to be very well-oriented, with 18% organic growth in Q3 while margin are a bit down in Q3.
- **Outlook for the construction activities.** The backlog stood at EUR28bn at end September, slightly down by 3% but almost (-1%) flat on a like-for-like basis. Bouygues Construction backlog is down -7.5% in Q3 but doesn't include several large projects, yet. Colas Order Book is slightly up in Q3 (flat in France on a 9 month basis and up 6% l-f-l outside). Bouygues Immobilier reservations (residential) are up 24% in Q3 (+22% on 9M).

**Key figures - construction**

EURm	Q1	Q2	Q3	Q1 %y/y	Q2 %y/y	Q3 %y/y
Revenues construction	4937	6446	<b>6836</b>	-5,1	-4,9	<b>-4,4</b>
Current EBIT constr.	-116	241	<b>443</b>	ns	3,0	<b>2,8</b>
Current EBIT margin %	-2,3	3,7	<b>6,5</b>	46bps y/y	29bps y/y	<b>45bps y/y</b>
Backlog Constr.	19,5	18,7	18,2	-1,5	-3,1	<b>-7,5</b>
Backlog Colas	7,7	8,0	7,2	-1,6	-0,8	<b>1,3</b>
Reservations (res).	426	578	439	11,5	28,4	<b>24,7</b>

Source : Company Data; Bryan Garnier &amp; Co. ests.

**VALUATION**

- We stick to our Buy recommendation and Fair Value of EUR35 derived from a SOTP.

**NEXT CATALYSTS**

- Bouygues is due to release its FY 2016 results on 23rd February 2017, before market.



### Bouygues Telecom main financial operational KPIs

	Q1	Q2	Q3	Q1 y/y %	Q2 y/y %	Q3 y/y %
Fixed Net adds (k)	71	51	93	-26,0%	-34,6%	-1,1%
Fixed ARPU	27,7	28,3	28,1	-3,1%	-3,4%	-4,4%
Mob. postpaid Net adds	151	171	129	3,4%	16,3%	-13,4%
Mobile ARPU	22,4	22,4	23	-1,3%	-1,8%	-1,3%

Source : Company Data (excl. M2M in Mobile)

### Construction activities : performance by division

EURm	Q1	Q2	Q3	Q1 %y/y	Q2 %y/y	Q3 %y/y
<b>Revenues construction</b>	<b>4937</b>	<b>6446</b>	<b>6836</b>	<b>-5,1</b>	<b>-4,9</b>	<b>-4,4</b>
<i>o/w B. Constr.</i>	2771	3029	2898	-0,3	-1,4	-2,6
<i>o/w Colas</i>	1754	2924	3437	-11,4	-9,3	-7,8
<i>o/w B. Immo.</i>	475	572	579	-7,4	5,0	13,3

EURm	Q1	Q2	Q3	Q1 %y/y	Q2 %y/y	Q3 %y/y
<b>Current EBIT constr.</b>	<b>-116</b>	<b>241</b>	<b>443</b>	<b>-20,5</b>	<b>3,0</b>	<b>2,8</b>
<i>o/w B. Constr.</i>	82	69	84	15	-10	-3
<i>o/w Colas</i>	-223	138	326	ns	10	4
<i>o/w B. Immo.</i>	25	34	33	-7	6	10

%	Q1	Q2	Q3	Q1 y/y	Q2 y/y	Q3 y/y
<b>Total Constr. margin %</b>	<b>-2,3</b>	<b>3,7</b>	<b>6,5</b>	<b>46bps</b>	<b>29bps</b>	<b>45bps</b>
<i>o/w B. Constr. margin %</i>	3,0	2,3	2,9	40bps	-23bps	-2bps
<i>o/w Colas margin %</i>	-12,7	4,7	9,5	-38bps	84bps	106bps
<i>o/w B. Immo. margin %</i>	5,3	5,9	5,7	0bps	7bps	-17bps

Source : Company Data; Bryan Garnier & Co. ests.

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