

SFR Group

Price EUR23.16

Improving topline trend and EBITDA back to growth, but turnaround not there yet.

Fair Value EUR29,7 (+28%)

NEUTRAL

Bloomberg	NUM FP
Reuters	SFRGR.PA
12-month High / Low (EUR)	38.1 / 20.0
Market Cap (EUR)	10,150
Ev (BG Estimates) (EUR)	24,517
Avg. 6m daily volume (000)	375.8
3y EPS CAGR	18.5%

Yesterday evening SFR published its Q3 2016 results. The revenue trend is clearly improving, especially on the BtoC side, driven by price increases, but the turnaround is not there yet with still unsatisfactory commercial performance. EBITDA is now back to growth, although below expectations. Heavy content costs which are necessary to deliver the group's strategy should weigh on the OPEX structure, but the full effect of on-going cost-cutting initiatives is still to come.

ANALYSIS

- **No obvious commercial turnaround yet, but the revenue trend is improving, and EBITDA is back to growth.** Total SFR revenues came out at **EUR2.802bn, down -2.4% yoy**. Excluding media assets revenue declined **-2.6%** to **EUR2.700bn** vs the consensus at EUR2.694bn, and vs -4.5% in Q2 2016. **Adjusted EBITDA reached EUR1041m up 0.7% yoy**, vs consensus at EUR1066m and vs -6.8% in Q2 2016.
- **Significant improvement in BtoC, BtoB and wholesale still under pressure.** BtoC revenues are down **-2.2%** yoy vs -5.2% in Q2 2016. BtoB revenues are falling **-4.1%** yoy vs -4.5% in Q2 2016. Wholesale revenues fell **-3.3%** yoy vs -0.9% in Q2 2016.
- **On the mobile BtoC side, commercial performance was still low, but the trend is improving in ARPU thanks to content bundling and probable positive VAT effects.** Q3 BtoC postpaid net adds worked out to **-73k**, vs -199k in Q2 2016 and -82k in Q3 2015. Mobile ARPU is up **0.9%** YoY vs -1.6% in Q2, up **4.9%** on a sequential basis due to strong seasonality. Postpaid ARPU is down **-1.6%** yoy vs -4.3% in Q2. As a result, Mobile BtoC revenues are down **-4.2%** vs -7.1% in 2017.
- **On the fixed BtoC side, fiber performance is still disappointing, not offsetting DSL losses, but ARPU is up thanks to price increases and probable VAT effects.** Q2 net adds stood at **-75k**, vs -57k in Q2 2016 and -42k in Q3 2015. Fiber net adds reached **44k**, vs 44k in Q2 2016 and 72k in Q3 2015. ARPU is up **4.3%** yoy vs 0.7% in Q2. As a result, Fixed BtoC revenues rose **1.3%** vs -2% in 2017.

VALUATION

- We stick to our Fair Value of EUR29.7 with a Neutral recommendation.

NEXT CATALYSTS

- Full year 2016 results expected mid March 2017.

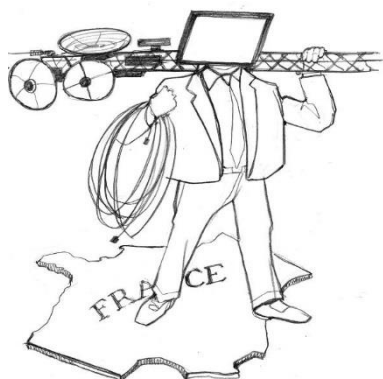
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	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.1%	3.9%	-16.8%	-30.9%
Telecom	-3.6%	-9.2%	-12.9%	-20.4%
DJ Stoxx 600	-0.9%	-1.5%	0.8%	-7.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	11,039	10,904	11,122	11,247
% change		-1.2%	2.0%	1.1%
EBITDA	3,860	4,028	4,399	4,633
EBIT	0.0	0.0	0.0	0.0
% change				
Net income	682.0	198.9	405.8	1,131
% change		-70.8%	104.0%	

	2015	2016e	2017e	2018e
Operating margin	11.7	13.1	12.0	20.9
Net margin	6.2	1.8	3.6	10.1
ROE	15.9	4.4	8.4	19.1
ROCE	2.8	4.2	3.5	6.7
Gearing	337.5	327.7	300.4	227.1

(EUR)	2015	2016e	2017e	2018e
EPS	1.45	0.41	0.85	2.41
% change		-72.0%	110.5%	
P/E	16.0x	57.1x	27.1x	9.6x
FCF yield (%)	7.4%	NM	NM	8.8%
Dividends (EUR)	5.40	0.00	0.00	0.00
Div yield (%)	23.3%	NM	NM	NM
EV/Sales	2.2x	2.2x	2.2x	2.1x
EV/EBITDA	6.4x	6.1x	5.6x	5.1x
EV/EBIT	NS	NS	NS	NS



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