

**Bouygues**

Price EUR31.71

**Feedback Reverse Roadshow Construction**

Fair Value EUR35 (+10%)

BUY

Bloomberg	EN FP
Reuters	BOUY.PA
12-month High / Low (EUR)	37.3 / 25.0
Market Cap (EUR)	11,007
Ev (BG Estimates) (EUR)	13,252
Avg. 6m daily volume (000)	870.0
3y EPS CAGR	27.1%

We met with Philippe Marien, deputy CEO of Bouygues, yesterday on our reverse roadshow. The insights provided by Mr Marien were positive both on construction and telecom activities, supporting our investment case. On the construction side, Colas should benefit from the infrastructures plan in North America, while Bouygues Immobilier is still steady. Bouygues Construction margin will increase, but in the mid term. On the telecom side, Philippe Marien's insights confirmed our view that good dynamics in mobile and fixed are here to stay and consolidation is still a free option for the sector.

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.2%	10.0%	10.3%	-13.2%
Telecom	-3.4%	-10.6%	-15.5%	-22.1%
DJ Stoxx 600	3.8%	-2.7%	0.0%	-6.7%

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	668	748	1,145	1,387
% change		12.0%	53.0%	21.2%
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	26.9x	30.4x	16.5x	13.1x
FCF yield (%)	NM	4.2%	6.3%	7.3%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	5.0%	5.0%	5.0%	5.0%
EV/Sales	0.4x	0.4x	0.4x	0.4x
EV/EBITDA	5.5x	5.0x	4.6x	4.2x
EV/EBIT	NS	NS	NS	NS

**ANALYSIS**

- In roadworks, with 23% of sales generated in North America, **Colas is well placed to benefit from any infrastructure plans**. Ramp-up will be gradual, however, and the FAST plan (signed by Obama) impact is expected more in 2018. 2016 activity was decent in North America, even if the Canada business has been penalized by lower oil prices in some regions (2017 should be better). In France, the market should be nearly stable in 2016, with stability expected again next year. **Bouygues considers the lack of maintenance in recent years will eventually be translated into larger, more costly works** (regular maintenance works usually regards first layers of the pavement, but this is more expensive when several layers are involved when maintenance capex have been neglected). Hence, roadworks might be slightly better in 2017.
- **In property development, the group should benefited from better volumes**, which means in particular lower discounts offered to clients and margins should also gradually improve. Bouygues Immobilier has been under pressure in the past when the group was forced to offer discounts in order to limit inventories. This is, of course, much less the case today thanks to a very favourable environment (low rates, buy-to-let Pinel scheme, zero-rate loans). **Finally, rates increase haven't penalised the business so far.**
- **In Construction, the group is focused on sophisticated projects, in countries where the legal environment is secure.** In that context, competition is usually lower and it is therefore possible for **Bouygues to be the lowest bidder, but with a decent margin**. It is true, however, that sophisticated projects tend to generate lower margins initially, as those projects are managed very carefully before they generate stronger margins eventually. The key is to balance various projects duration in order to control profitability. In any case, Bouygues Construction margin should improve in the next years and could generate 3.0-3.5% operating margin in 3 years (2.9% in 2016e).
- **Regarding Bouygues Telecom Philippe Marien reiterated confidence in growing the business on a standalone basis**, confirming an EBITDA target of 25% in 2017, and generation of several hundred million euros of free cash flow within a few years.
- **On the mobile side**, Philippe Marien highlighted that **promotional activity is still very strong** on the low end segment, noting the trend was slightly improving, but that promotions were less intense in the high end segment. He said Bouygues Telecom's strategy to replicate most aggressive promotions on the market proved successful: in that case, the net adds effect is positive for Bouygues Telecom, Philippe Marien said, highlighting **Bouygues Telecom's quality oriented strategy was appropriate in this highly competitive market**. Philippe Marien said **Bouyuges Telecom's advance in 4G will be hard to catch up for competitors**, as the company continues to invest heavily in the development of its mobile network, more than **EUR1bn OPEX+CAPEX every year**. The number of Bouygues Telecom's antennas in very dense areas should increase by **50%** within 5 years. Also he noted Bouygues Telecom's large portfolio of frequencies was a major competitive assets, given the group's smaller customer base.
- **On the fixed side**, Philippe Marien said that Bouygues Telecom's strategy was focused on **acquiring new customers**, and that **focusing on DSL** was still the best way to do so. He confirmed the objective of 1 million additional wireline customers by 2017 (vs end 2014) was **still well on track**. Besides, Philippe Marien highlighted the regulatory framework for fiber allowed Bouygues Telecom to **be present in fiber** without investing as much as Orange or SFR, thanks to rental or flexible co-investment models. Moreover, Philippe Marien sounded confident that **some evolution in the Fibre regulatory framework** would eventually correct Orange's dominant position in FTTH



and facilitate deployment from competitors.

- **Regarding consolidation of the French Telecom Market**, Philippe Marien said the group was open to examine any deal which would meet the two following requirements: **1/strengthen Bouygues' position in telecom**, and **2/ensure successful outcome**. Philippe Marien said there was no such project on the table at the moment. In the event Bouygues would chose to raise debt to finance an acquisition, Philippe Marien said Bouygues would make sure it still keeps an **investment grade** rating.
- **Regarding Bouygues's 28% stake in Alstom**, of which 20% is currently lent to the French State, Philippe Marien said Bouygues was **focused on Alstom's operational performance**, and **refused to say what the group's intention was** regarding the future of its participation. He said Bouygues's position will be different whether it owns 8%, 13% or 28%. Indeed, the French State has an option to buy the 20% stake at a floor price of EUR35 (Alstom is currently trading around EUR25), and in October 2017 the French State will have an option to retain a 15% stake at market price.

#### VALUATION

- We stick to our fair value of EUR35 with a Buy recommendation.

#### NEXT CATALYSTS

- Full year 2016 results expected end of February 2017.

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