

## Orange

Price EUR13.74

CEO says he would be interested in buying out Canal+

Fair Value EUR17.1 (+24%)

BUY

Bloomberg	ORA FP
Reuters	ORAN.PA
12-month High / Low (EUR)	16.4 / 13.1
Market Cap (EURm)	36,536
Ev (BG Estimates) (EURm)	59,719
Avg. 6m daily volume (000)	6 352
3y EPS CAGR	2.6%

Stephane Richard yesterday said Orange would be interested in buying Canal+ if it was for sale. Although we believe an industrial alliance between the two groups makes much sense, we are more reserved about a capitalistic alliance. And we think this declaration from Stephane Richard, which contrasts with previous comments on the pertinence of a telco/media vertical integration strategy, adversely affects the readability of the group's strategy.

## ANALYSIS

- *Les Echos* reports that on the margin of a press conference in Morocco yesterday, Stephane Richard said **Orange would be interested in buying Canal+ if it was for sale**. Stéphane Richard added there were **many reasons for an alliance** between the two companies, but the form and the importance of such an alliance was still to be defined. According to BFM Business, Orange and Vivendi have been discussing for several weeks, but they are blocking on the capitalistic side.
- **Orange and Canal+ are already partners**, both present in France, Poland and Africa. Orange has recently signed a partnership with Canal+ in France, to include Canalsat channels in its fiber TV offer. Also the two groups have answered together a tender offer for the distribution of TNT channels in Ivory Coast.
- From Canal+' side, in a **defensive mode**, a capitalistic alliance with a major player such as Orange could help the company **fight against the growing threat from Altice's** aggressive media/telco convergence strategy and its large investment capacity (Yesterday again, Altice announced a partnership with NBCUniversal and Discovery, "stealing" away important TV channels from Canal+). Canal+ in France has lost **542k** customers over the past 12 months, and its 9M 2016 EBITA is negative at **EUR-151m**, down -22.4% yoy. In order to restore the situation, Canal+ has recently adopted a **brand new commercialisation strategy**. Initial results are expected in Q4 2016.
- From Orange's side, such a declaration from Stephane Richard sounds like a real **change in the group's strategy towards contents**. Orange's CEO repeated many times pursuing a telco/media vertical integration was not in the group's strategy. Is Stephane Richard starting to feel the pressure from Altice? In our opinion, **this type of declaration adversely affects the readability of the group's strategy and convictions**.
- **A large commercial and industrial alliance between the two groups would definitely make sense, but we are more reserved about a capitalistic alliance**. At this stage, we are not convinced Orange taking a minority stake in Vivendi would create more value than an industrial partnership. And Vivendi becoming a shareholder of Orange seems unlikely at this stage in our view, raising **personal and political issues**.

## VALUATION

- We stick to our Fair Value of EUR17 with a Buy recommendation.

## NEXT CATALYSTS

- Full year 2016 results expected end of February 2017.

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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