

SFR Group

Price EUR23.47

Following sports and news, SFR developing premium entertainment content.

Fair Value EUR29.7 (+27%)

NEUTRAL

Bloomberg	NUM FP
Reuters	SFRGR.PA
12-month High / Low (EUR)	38.1 / 20.0
Market Cap (EURm)	10,286
Ev (BG Estimates) (EURm)	24,653
Avg. 6m daily volume (000)	390.2
3y EPS CAGR	18.5%

Altice/SFR is pursuing its aggressive premium pay TV content strategy, with two new partnerships (NBCUniversal and Discovery Communications), leading to the exclusive distribution and creation of new channels in the entertainment field. We believe the success of this premium-based strategy and related value creation remains questionable at this time, as priority in order to restore sustainable growth at SFR remains, in our view, fixing up quality of service concerns and customer satisfaction.

ANALYSIS

- Following previous moves in sports and news, Altice/SFR is strengthening its pay TV premium content portfolio in the **entertainment** field with partnerships with **NBCUniversal** and **Discovery Communications**. The agreement with NBCUniversal will give SFR **exclusive distribution** of 13th Street, Syfy and E!, and access to a portfolio of films produced by NBCUniversal, to be offered through a **new Pay-TV channel**. The agreement with Discovery will give SFR **exclusive distribution** of Investigation Discovery, Discovery Family, Discovery Channel, and Discovery Science. Thanks to these agreements, SFR will expand its line up to a **total of 20 channels**.
- SFR is pursuing its **aggressive premium pay TV content strategy**. So far, it has not allowed to erode customer losses, with fixed customer base down almost **-200k** in 2016 and fiber net adds **below expectations**, but ARPU was up **+4.3% yoy** in Q3 thanks to content bundling. More tangible impacts might kick in later when quality of service fundamentals are restored.
- Besides possible positive side effects on the telco business, we question the value which can be created on the pay TV market in France, where Canal+ and BeinSports are already **struggling to make money**. In addition, we believe a fight with Canal+ for the NBCUniversal and Discovery rights might have **pushed the prices up**. As a reminder, Bertrand Meheut, former Canal+ CEO has recently joined the board of SFR group.
- Thus, the **return on these investments remains questionable** in our view, at this time. It will also depend on SFR's commercialisation strategy. We believe that, as has done before, SFR will **bundle in the new premium channels in its high end offers**, imposing **price increases** to the customer base while **inducing additional churn**. And will SFR try to **wholesale** its own entertainment offer, as Orange is doing with OCS, and as SFR is supposedly trying to do with SFR sports, with not much success so far?

VALUATION

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

NEXT CATALYSTS

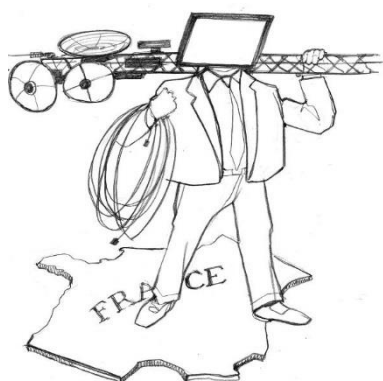
- Full year 2016 results expected mi-March 2017.

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.8%	-8.3%	-18.6%	-29.9%
Telecom	-2.2%	-8.5%	-14.2%	-20.4%
DJ Stoxx 600	4.2%	-0.8%	0.4%	-5.0%

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	937	1433	1338	2351
% change		53%	-6.7%	75.7%
Net income	682.0	198.9	405.8	1,131
% change		-70.8%	104.0%	NM

	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%	NM
P/E	16.2x	57.9x	27.5x	9.7x
FCF yield (%)	7.3%	NM	NM	8.6%
Dividends (EUR)	5.40	0.00	0.00	0.00
Div yield (%)	23.0%	NM	NM	NM
EV/Sales	2.2x	2.3x	2.2x	2.1x
EV/EBITDA	6.4x	6.1x	5.6x	5.1x
EV/EBIT	NS	NS	NS	NS



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Distribution of stock ratings

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