

Altice

Price EUR11.80

Michel Combes resigns, Altice's governance evolves : for good or bad ?

Fair Value Under Review

UNDER REVIEW vs. BUY

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	23.3 / 11.8
Market Cap (EURm)	18,954
Ev (BG Estimates) (EURm)	67,726
Avg. 6m daily volume (000)	2,593
3y EPS CAGR	

	1 M	3 M	6 M	31/12/16
Absolute perf.	-33.4%	-43.1%	-48.8%	-37.3%
Telecom	-2.0%	-7.0%	-7.9%	-4.1%
DJ Stoxx 600	1.3%	3.1%	0.1%	9.1%

YEnd Dec. (EURm)	2016	2017e	2018e	2019e
Sales	20,756	23,702	23,485	23,864
% change		14.2%	-0.9%	1.6%
EBITDA	8,086	9,459	9,733	9,907
EBIT	0.0	0.0	0.0	0.0
% change		NM	NM	NM
Net income	-1,862	-1,307	1,208	1,955
% change		29.8%	NS	61.8%

	2016	2017e	2018e	2019e
Operating margin	7.8	7.7	19.1	22.5
Net margin	-9.0	-5.5	5.1	8.2
ROE	-7.5	-5.2	3.0	5.3
ROCE	-2.2	-1.9	1.1	2.0
Gearing	-2,153	-23,856	4,670	1,509

(EUR)	2016	2017e	2018e	2019e
EPS	-1.36	-1.11	1.03	1.67
% change	-	18.5%	NS	61.8%
P/E	NS	NS	11.4x	7.1x
FCF yield (%)	NM	NM	14.2%	16.1%
Dividends (EUR)	0.00	0.21	0.00	0.00
Div yield (%)	NM	1.8%	NM	NM
EV/Sales	3.3x	2.9x	2.8x	2.7x
EV/EBITDA	8.6x	7.2x	6.8x	6.4x
EV/EBIT	NS	NS	NS	NS



Yesterday evening Altice announced the resignation of Michel Combes, and consecutively a new founder and owner centered governance. The organisation changes are meant to align public shareholders' interests with the ones of the group's managers, and seek to restore investors' confidence, but we are not convinced it will be the case, as we believe the new governance raises more questions than answers. We maintain our fair value under review, but we are putting our recommendation under review as well.

ANALYSIS

- Yesterday evening Altice announced the resignation of Michel Combes (Altice NV CEO and SFR Group chairman and CEO), and the appointment of Patrick Drahi as President of the Board of Altice NV, Dexter Goei as CEO of Altice NV, Dennis Okhuijsen as Altice Europe CEO (in addition to CFO), Armando Pereira as Altice Telecom COO, and Alain Weill as SFR Group Chairman and CEO (in addition to Altice Media COO). This **new founder and owner centered governance** is meant to **fully align the interests of public shareholders with the ones of Altice's founders and managers**. Let us remember Patrick Drahi had left his seat as President of Altice NV to Dexter Goei in June 2016, and Michel Combes joined the group two years ago, at the end of a year 2015 which had seen a sharp improvement of SFR's EBITDA, but a dramatic loss of customers at SFR.
- Those management and governance changes are naturally aiming at **restoring investors confidence**, as the company is struggling to turnaround France and is under the pressure of financial markets, but we are not convinced it will be the case in the short term, for the following reasons: **1/** Michel Combes's departure might imply the situation as SFR is worse than we think, with major difficulties ahead. **2/** the departure of Michel Combes, together with the one of Michel Paulin, and the concentration of the new governance around historical Altice executives might indicate the group is having difficulties attract and retain top executives from the industry (Alain Weill being an exception here, as he has sold its group to Altice). **3/** the return to the fore of "historical" Altice executives has some similarities with the year 2015 and the management choices made right after the takeover of SFR by Altice. **4/** the appointment of Alain Weill (whose achievements as a media entrepreneur are remarkable), as CEO of SFR can raise questions, given his limited experience in telecoms, when it is specifically the French telecom business which is struggling.
- Since November 2nd and the group's disappointing results, notably in France, Altice share is down **34%**. Besides **speculation, which we believe plays an important role here**, we think **Altice's recent stock fall can be attributed to the situation in France with a contagious effect to the USA and the whole group**. Notably, the drop in Altice's equity has seen the group's leverage (defined as net debt/equity) soar from **2.2** at the end of H1 2017 to **4.1** currently. In these conditions, potential M&As or refinancing operations may prove more difficult in the short term, in our view, putting **additional stress on the company**. However, we remind investors that the group has no major maturity until 2022, and has the necessary credit facilities to face upcoming reimbursements in the meantime.
- Also, we believe **the stock price is trading below its fair value**, even given the serious question marks surrounding the French outlook. Altice NV is currently trading at a low **7.0x EV/2017e EBITDA** multiple, given consensus 2018e mid single digit EBITDA growth. This compares with the European peers trading at 7.7x EV/2017e EBITDA with 2018e EBITDA growth of 3.3%, and the US peers trading at 9.0x EV/2017e EBITDA with 2018e EBITDA growth of 7.3%. Using a **reverse SOTP** approach as presented below, it appears the implicit valuation of France in Altice NV is **5.5x EV/2017e EBITDA**, which means **the market is betting on a substantial long-term deterioration in Altice France's financials**.
- In order to fully reassure investors about the situation in France, we believe the group should notably: **1/ Announce a pause in heavy content acquisition**, and possibly the resale of part of the Champion's League rights. **2/ Leverage the brand change by launching a massive communication and retention program** aimed at restoring customer loyalty. **3/ Clarify the financing of its FTTH plan**.

VALUATION

- We have put our recommendation under review, and maintain our fair value under review

NEXT CATALYSTS

- Altice FY 2017 results expected mid March.

Reverse SOTP analysis

	Total	Int	France	US	Others/Holding
EBITDA (2017)	9383	2295	3731	3596	-239
Multiple	7.0	7.5	5.5	8.4	7.5
EV	66091	17214	20504	30166	-1793
Net debt	-48899	-16291	-15107	-17501	0
Financial assets	318	0	0	318	0
Minority interest	-4117				
Provisions	-1735	-895	-840	0	0
Others (USA NOL)	834			834	
Equity - 100%		28	4557	13817	-1793
% detention	100%	100%	100%	70%	100%
Equity - 100%	12492	28	4557	9699	-1793
Share value	10.6				

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