

Bouygues	
Ticker Site BiG	EN
Ticker BiGlobal Trade	EN
Ticker BT24	EN
Ticker BiG Power Trade	EN
P/E Ratio 2018E	12.29
P/BV Ratio	1.30
EV/EBITDA	6.22

Source: Bloomberg;

Price and Performance (Values in EUR)	
Price	30.58
52 week high	45.98
52 week low	30.38
YTD	-29.4%
Average daily volume (un)	839,694
Market Capitalization (mn)	11,212
Beta	1.06
Dividend	1.70
EPS (Bloomberg Est.)	0.94

Source: Bloomberg;

Analysts Consensus (last 3 months)	
Buy	11
Hold	10
Sell	2

Source: Bloomberg;

Financial Data	
Sales (EUR mn)	32,904
EBITDA (EUR mn)	3,188
Number of Employees	115,530
ROA	3.0%
ROE	13.2%
D/E	0.66
Dividend Yield	5.56%

Source: Bloomberg;

Notes:

All quotes were updated in Bloomberg at 08h37 of October 23th, 2018.

Relevant Information:

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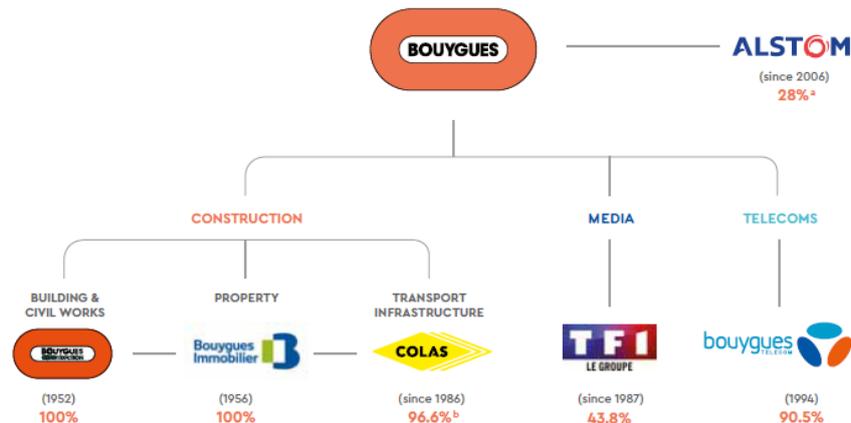
Bouygues

Description

Bouygues was founded in 1952 and since then has been diversifying its business from construction to media (1987) and telecoms (1994).

- Bouygues Construction has operation in over 80 countries and employs 47,354 people with sales of EUR 11.7bn and a net profit margin of 2.7%.
- Bouygues Immobilier is a leading property developer in France with 1,973 employees, sales of EUR 2.7bn and net profit margin of 4.6%.
- Colas is the world leader in transport infrastructure construction and maintenance employing 55,179 people, with sales of EUR 11.7bn and net profit margin of 2,8%.
- TF1 is a television group with 9 TV channels, while also producing other media content. Employs 3,057 people, has EUR 2.1bn in sales and net profit margin of 8.7%.
- Bouygues Telecom operates in France with 3.4mn fixed broadband customers and 14.4mn mobile customers. Employs 7,398 people with sales of EUR 5bn and net profit margin of 5.1%.
- Alstom develops and provides markets systems, equipment and services to the transport sector. Bouygues has a 28% stake in this company with a total market capitalization of EUR 8.38bn.

Simplified organisation chart of the Bouygues group at 31 December 2017



(a) 28.8% of the voting rights
(b) 97.9% of the voting rights

Bouygues trades in the French stock exchange with a market capitalization of EUR 11bn and has more than 115,500 employees.

Investment Case

Given the low margins of the business, the current fading out of the economic cycle (which affects the construction segment) and the future high capex needs of the telecom sector we would not investment in Bouygues. We would prefer to wait until it is clear how the M&A in French Telecoms will play out, or if it will even happen to later understand if there is an opportunity in some company.

Income Sta. (EUR mn)	2017	2016
Bouygues Construction	11660	11815
Bouygues Immobilier	2712	2568
Colas	11705	11006
TF1	2125	2063
Bouygues Telecom	5086	4761
Adjustments	-234	-313
Revenues	33054	31900
Purchases used in production	15287	14751
Payroll Costs	7336	7169
Depreciation and Amortization	1655	1599
External charges	7280	6862
Other expenses and services	76	398
Operating Expenses	31634	30779
Bouygues Construction	363	303
Bouygues Immobilier	223	167
Colas	362	386
TF1	185	129
Bouygues Telecom	329	149
Adjustments	-42	-13
EBIT	1420	1121
Other costs	-88	88
Taxes	303	249
Net Income	1205	784
Earnings Per Share	3.03	2.11

Source: Company Data

Income Statement

Bouygues sales in 2017 increased by 4%. Bouygues construction sales were down 1% but stable on a like-for-like basis. Bouygues Immobilier increased sales by 6% due to an increase in property reservations. TF1 sales were up by +3% as advertising sales grew +2% and other sales +6%. Bouygues Telecom sales increased by 7%, as subscriber base grew and there were price increases introduced in 2017 on premium mobile and all fixed offers.

Free Cash Flow

The company spend per year around EUR 1.5bn in capex, which given the EUR 2.1bn operating cash flow and EUR 226 mn in interest costs, leaves little room for paying dividends without increasing debt or capital. The company has paid dividend of around EUR 600 mn in the last 2 years.

Balance Sheet

In 2017 net debt was around EUR 1.9bn, given the considerable high position in cash of EUR 4.8bn. The investments in JV correspond to the Alstom stake.

First Half of 2018 earnings

In the first half of 2018, Bouygues's revenues were EUR 15.7bn, vs est. EUR 15.4bn, while operating profit was EUR 303mn, vs est. EUR 284mn. The telecom unit added 448,000 customers in the 2Q and backlog reached EUR 33.7bn in the construction business (+9% yoy).

In October the company revised its outlook for the year, expecting now stable or slightly lower current operating profit for the group vs 2017. This was due to equipment issues in 2 biomass plants in UK, the termination of a datacenter in Ireland, strikes at French rail operator SNCF and bad weather. Bouygues kept the outlook for the telecom and TF1 segments unchanged.

M&A

Consolidation of Telecoms in France:

- In the 1H conference call, the CEO affirmed that until the government reviews the frequency licenses expiring in 2021, there will be no consolidation happening. This process may take around 5 months.
- In April of 2018, there were rumors that Bouygues was interested in SFR (the telecom unit of Altice). The high leverage of Altice is a major barrier to this deal.
- In 2016 Orange tried to acquire Bouygues Telecom but the deal was dropped as there were divergences between Martin Bouygues and the then Economy Minister, Emmanuel Macron, as well as divergences about who would acquire the assets that had to be sold by Bouygues and Orange to maintain a fair competitive environment.

Free Cash Flow (EUR mn)	2017	2016
Operational Cash Flow	2164	2418
Business Net Income	1205	784
Depreciations and Amortizations	1638	1760
Changes in Working Capital	-395	194
Others	-284	-320
Investment Cash Flow	-1586	-705
Capex	-1527	-1638
Others	-59	933
Financial Cash Flow	-362	-693
Debt change	123	87
Share buyback	326	189
Dividends	-606	-662
Interest Cost	-226	-222
Other	21	-85
Change in free cash flow	216	1020
Other and forex	-186	-28
Cash and equivalents	4611	4581

Source: Company Data

Balance Sheet (EUR mn)	2017	2016
Assets	35778	34854
Cash & Equivalents	4820	4749
Receivables	6732	6367
Inventories	3037	2955
Property Plant & Equipment	6858	6566
Intangible Assets & Goodwill	7517	7547
Investments in JV	2502	2429
Other Assets	4312	4241
Liabilities	25568	25434
Short term Debt	945	433
Long term Debt	5788	6180
Provisions	2974	3201
Payables & accrued expense	7349	7140
Advances on orders	1101	1010
Other liabilities	7411	7470
Total Shareowner's Equity	10210	9420
Total Equity and Liabilities	35778	34854

Source: Company Data



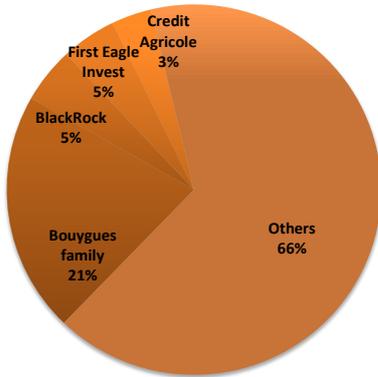
Source: Company

Management Team

Martin Bouygues (CEO and Chairman): Martin's father, Francis Bouygues, founded the company in 1952 in the same year that his son was born. With 22 years old and a high school diploma, Martin started working as a works supervisor. He was later asked to create Maison Bouygues, a real estate catalogue business with his brother Nicolas. In 1982 he was appointed for the company's board of directors and in 1987 appointed vice-chairman of the board. Francis Bouygues, the eldest son, which graduated as engineer in École Central Paris as his father and grandfather did, was to be appointed CEO, however due to confrontational relationships with other leaders of the group, he left the company and Martin was appointed in 1989 as CEO. He successfully defended the company against a hostile takeover from Vincent Bolloré (1997) and made an agreement with Alstom in 2006. In 2017 was elected the 6th best performing CEO by Harvard Business Review.

In 2017 Martin received from Bouygues around EUR 2.7mn, including salary (EUR 920,000), variable compensation (EUR 1,472,250) and other benefits (EUR 280,000).

Shareholders



Plans

Broadband Plans in France

Name	Bbox Fit	Bbox Must	Bbox Ultym
Promotional price during first year per month	12.99 €	17.99 €	24.99 €
Price after 1 year per month	22.99 €	32.99 €	39.99 €
Loyalty program	12 months	12 months	12 months
Internet	ADSL	Fibre 500Mb/s or ADSL 200MB/s	Fibre 1Gb/s or ADSL 250Mb/s
Phone	Unlimited fixed numbers	Unlimited fixed and mobile	Unlimited fixed and mobile in Europe
Channels		180	180 with 4K
Others			> 1000 newspapers and magazines online

Mobile Plans in France

	7.99 €	19.99 €	24.99 €	28.99 €
Promotional price during first year per month	7.99 €	19.99 €	24.99 €	28.99 €
Price after 1 year per month	7.99 €	19.99 €	24.99 €	38.99 €
Loyalty program	0 months	0 months	0 months	24 months
Mobile internet included	20MB	20GB	50GB	70GB
Calls and sms	unlimited	unlimited	unlimited + 120 destinations	unlimited + 120 destinations

Source: Company data

SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> Diversification across multiple sectors Family business 	<p>Weaknesses</p> <ul style="list-style-type: none"> Low margins across all businesses Highly cyclical businesses
<p>Opportunities</p> <ul style="list-style-type: none"> Merger with other French Telecom? 	<p>Threats</p> <ul style="list-style-type: none"> Competition French telecoms Possible dividend cut Rise in interest rates

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Relative Valuation

Bouygues cannot be directly compared due to its construction segments, which explains the margin EBITDA significantly lower.

Name	Country	Market Cap (mn)	Currency	P/E 2018E	EV/EBITDA	Div. Yield	NetDebt/ EBITDA	Margin EBITDA
KONINKLIJKE KPN NV	NETHERLANDS	9,948	EUR	21.5	7.5	5.3%	2.7	37.7%
BT GROUP PLC	BRITAIN	24,021	GBP	9.2	n.a.	6.4%	n.a.	n.a.
TELECOM ITALIA SPA	ITALY	10,128	EUR	7.1	5.6	n.a.	3.5	38.0%
DEUTSCHE TELEKOM AG-REG	GERMANY	69,779	EUR	15.6	5.7	4.4%	2.4	31.0%
TELEFONICA DEUTSCHLAND HOLDI	GERMANY	11,282	EUR	n.a.	6.7	6.9%	1.1	24.8%
TELEFONICA SA	SPAIN	35,779	EUR	9.9	6.4	5.8%	3.0	32.1%
NOS SGPS	PORTUGAL	2,632	EUR	19.4	5.9	5.9%	1.8	37.9%
VODAFONE GROUP PLC	BRITAIN	39,658	GBP	15.6	5.9	9.0%	1.8	31.6%
ORANGE	FRANCE	36,988	EUR	13.1	6.1	4.7%	2.2	28.7%
ILIAD SA	FRANCE	6,173	EUR	16.2	6.4	0.7%	1.8	35.7%
BOUYGUES SA	FRANCE	11,212	EUR	12.3	6.2	5.6%	1.6	9.5%
Average exc. Bouygues				14.2	6.2	5.44%	2.3	33%

Source: Bloomberg; BiG Research

Risks

Rise in interest rates: Due to the company's leverage and capex requirements, as the interest rates rise, its debt cost will rise and the company may find harder to refinance itself or finance new capex or M&A.

Pricing competition: Telecom companies have been battling fiercely for customers by decreasing prices and increasing their offers. If the decline in ARPU (average revenue per user) continues the company business model may become unsustainable.

Chart analysis



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

Calendar

November 15th, 2018: Earnings 3Q18

February 21st, 2019: Earnings 2018

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 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;
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PSI20 Notes in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75.0%
Keep/Neutral	0	0.0%
Reduce/Sell	1	25.0%
Total	4	100.0%

Source: BiG Research

Trading Ideas in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61.1%
Stop Loss	6	33.3%
In Place	1	5.6%
Total	18	100.0%

Pair Trades in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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