

24 Eutelsat – Laurie Davison, SELL, close €18.9, €14 tgt, 26% downside

- **Opex and capex cuts leave ETL exposed in 2018.** Faced with falling demand, SES invested to diversify and ETL made cuts. Thus ETL outperformed SES over 2017, but is now left with more fixed trunking data, less mobility and a weaker Government position.
- **We see 5 new worrying datapoints for core Video clients:** (1) Polsat acquisition of fixed line operator, (2) Sky Italia exploring fibre distribution, (3) Naspers putting Multichoice up for sale, (4) TEF passing on Sky Brasil and, (5) TEF set to be first platform to exit satellite altogether within 5yrs.
- **We expect this to impact via pricing pressure in renewals.** There is no risk of major clients leaving satellite in the near-term. But the barriers to a move to fibre are falling as streaming costs fall and fibre coverage grows. **Government and fixed data have moved from help to hindrance.** Both ISAT and ETL flagged Government as weak in Q3, and ETL lacks SES's geographical scope. ETL also saw unexpected fixed data weakness in Q3 with a 12% decline: its lack of diversification leaves it exposed.
- **We expect Eutelsat to miss guidance** as a result. The current guidance requires a return to growth in the next twelve months. We view that as optimistic and expect continued revenue decline.
- **We are 6-7% below consensus** on fiscal '18 – '20.
- **The stock is not cheap.** 7x EV/EBITDA vs telcos at 5x during their ex growth phase
- Catalysts: guidance cuts

Related DB Research:

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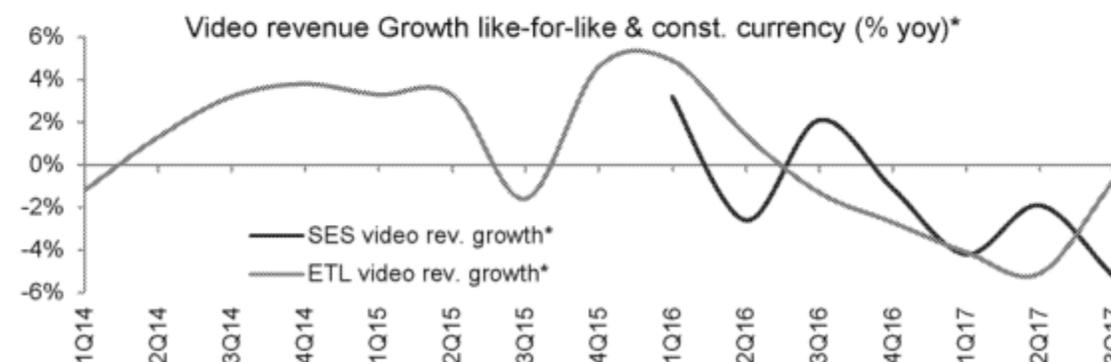
Media 2018 Outlook: Don't flirt with mean revert (Davison)

ETL has materially outperformed ESE (which is at five-year lows)



Source: Factset

Video turned negative for both groups in 2016 after being the major growth driver for the past 10 years



Source: Company data. * Quarters are aligned with Calendar Year. For Eutelsat, FY ending is June, so 3Q17 corresponds to 1Q18 number. SES did not report Video revs standalone prior to 2016