

COMPANY NOTE

Target | Estimate Change

FRA | Telecommunications | Cable & Satellite

5 March 2014

Jefferies

SES (SESG FP) Whither the Cash?

Key Takeaway

We remain a buyer of SES on fundamentals alone (just) but its re-rating back to all-time highs begs the question of what drives the upside from here. We look at three potential catalysts, with a focus on uses of its under-gearred balance sheet. We screen the market for potential M&A targets with some clear candidates and a framework for evaluating a deal. A lack of visibility on timing and financial impact, clearly, limit our ability to pound the table.

Still a buyer on fundamentals (just). SES's well-grounded guidance and consensus expectations limit scope for upgrades. Our work on expansion capacity continues to give us confidence that the growth guidance is well under-pinned. SES has put concerns on the risk from compression on the back foot, with most recent comments providing further comfort on the outlook. The stock has deservedly rallied back to close to all time highs, but now begs the question, "what next?".

Upside catalysts. We see three obvious upside catalysts, of which two involve leveraging the balance sheet: value accretive M&A; buybacks / special dividends; and / or improving satellite economics. While none of the catalysts comes with particularly high visibility, the latter two are perhaps furthest away from being embedded into expectations. We take the opportunity to recap on the potential impact of SpaceX / electric propulsion on terminal capex assumptions.

Preference for M&A. With a long run cash flow yield of ~8.5% and a typical satellite IRR of mid-teens, SES is right to signal that M&A has a higher weighting within its options to gear up the balance sheet. Nonetheless, it's worth highlighting that given the dividend coverage, SES's free cash flow yield is a credible proxy for its shareholder return yield meaning, in aggregate out to 2018, it could return 38% of its equity value, should it wish to do so.

Whither the cash? We take recent management commentary as a lead and look at the various M&A options / targets in Asia Pacific. While our work aims to highlight the potential targets along with key operational / financial / valuation analysis, we present one clear-cut M&A roadmap: a take-out of the O3b minorities for €860m and an acquisition of Measat for €500m.

Valuation/Risks

SES has rallied to 16.3x 2014 PE, against our target rating of 18x. Its discount to Eutelsat (on 17x 2014 PE), as we had previously argued, has now reduced materially, but is still justified given the relative growth outlooks. Principle risk remains oversupply within the industry.

EUR	Prev.	2013E	Prev.	2014E	Prev.	2015E	Prev.	2016E
Rev. (MM)	1,855.3	1,862.5	1,990.8	1,980.4	2,083.2	2,064.6	2,146.2	2,119.1
EBITDA (MM)	1,361.8	1,413,364.7	1,467.2	1,451.0	1,535.3	1,512.7	1,581.8	1,552.7
EV/EBITDA		0.1x		9.6x		9.2x		8.9x
EPS	1.50	1.40	1.63	1.53	1.78	1.71	1.93	1.84
FY P/E		17.7x		16.2x		14.5x		13.5x
Dividend								
FY Dec	--	1.07	--	1.17	--	1.29	--	1.42
Div. Yield		4.31%		4.71%		5.19%		5.72%

BUY

Price target €27.70
(from €28.00)
Price €24.84

Financial Summary

Net Debt (MM): €3,801.7

Market Data

52 Week Range: €25.47 - €20.48

Total Entprs. Value (MM): €13,862.4

Market Cap. (MM): €10,060.7

Shares Out. (MM): 405.1

Float (MM): NA

Avg. Daily Vol.: 711,421

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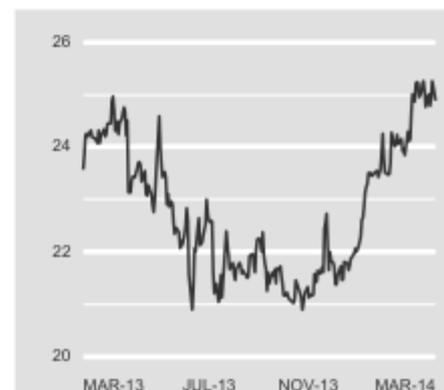
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Price Performance



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Scenarios

Target Investment Thesis

- Continued solid execution, free from negative catalysts (compression, HTS over-supply)
- Relative insulation from short term sequestration headwinds
- Revenue growth of 6.3% in 2013, compared to guidance of 6-7%
- Margin stability
- FY14 EPS of €1.53, PE of 18x, price target €27.7

Upside Scenario

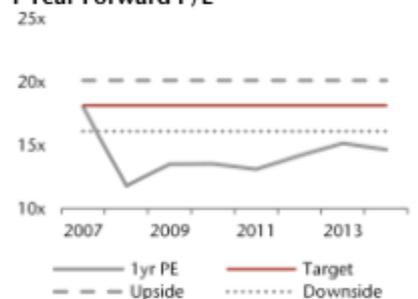
- Strong take-up and price inflation for capacity, especially in emerging markets
- Faster-than-expected redeployment of German transponders
- Earlier than expected normalisation of US government demand
- Acquisition opportunities
- FY13-16 guidance raised or exceeded
- FY14 EPS of €1.65, PE of 20x, price target €33

Downside Scenario

- Major USD depreciation against Euro
- Deep demand deflation from compression and HTS over-supply
- Sequestration headwinds cause management to lower FY14 guidance
- Oversupply in global satellite capacity from increased industry launches
- Unable to re-contract Germany transponders
- FY14 EPS of €1.4, PE of 16x, price target €22

Long Term Analysis

1 Year Forward P/E



Source: DataStream, Jefferies

Long Term Financial Model Drivers

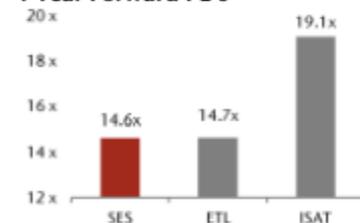
LT Earnings 2013-2016 CAGR	4.4%
Organic Revenue Growth	4.4%
Acquisition Contribution	0.0%
Operating Margin Expansion	0.0%

Other Considerations

- SES has a 46.88% stake in a medium earth orbit satellite operator, O3b
- O3b is yet to launch full global commercial service
- O3b equity valuation, as per management, of \$1.5-3.0bn
- SES has options to take control and / or 100% ownership of O3b

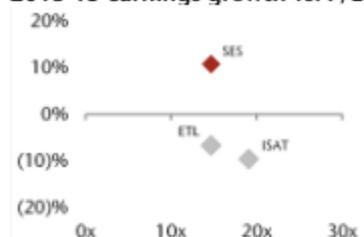
Peer Group

1 Year Forward PE's



Source: DataStream, Jefferies

2013-15 earnings growth vs. P/E



Source: DataStream, Jefferies

Recommendation / Price Target

Ticker	Rec.	PT
SESG FP	Buy	€27.70
ETL FP	Buy	€27.20
ISAT LN	Buy	790p
AVN LN	Buy	580p

Catalysts

- 1Q14 results on 9 May 2014
- 2Q14 results on 25 July 2014
- 3Q14 results on 31 October 2014
- Astra-5B launch on 21 March 2014
- Astra-2G launch in 1Q14
- SES-9 launch in 2015
- Announcement of incremental growth satellite launches

Company Description

SES SA provides satellite-based data transmission and ancillary services. The company operates through Media and Broadcasting services. The Media and Broadcasting segment offer space segment services, value added services and customized services. The company applications include Digital TV, HDTV, 3DTV and Hybrid TV. It offers services including direct-to-home broadcasting, feeds for cable and digital terrestrial television networks, broadband Internet access and mobile backhaul. The company was founded in 1985 and is headquartered in Luxembourg.

Reiterate Buy: whither the cash?

We reiterate our Buy rating on SES, albeit with a lower level of conviction given the price action since our last note ("Stop Fretting", 3 December 2013). There is now only 16.2% 12-month total return on SES, which only just keeps it at a Buy rating under our ratings framework (>15%). We remain a buyer of the name on fundamentals (just) but the well-grounded guidance and consensus expectations limit scope for upgrades. At the same time the recent re-rating raises the question of what could the potential upside catalysts be from here.

In response, we see three obvious sources of upside: value accretive M&A; buybacks / special dividends; and / or improving satellite economics. While none of the catalysts comes with particularly high visibility, the latter two are perhaps furthest away from being embedded into expectations (though we take the opportunity to recap on the potential impact of SpaceX / electric propulsion on terminal capex assumptions).

In terms of M&A, we take recent management commentary as a lead and look at the various options that SES now has. We present one potential roadmap: a take-out of the O3b minorities for €860m and an acquisition of Measat for €500m. In aggregate this would take SES's leverage up to the 3.3x guidance level. A material deviation above these valuations would be a negative for the equity. Equally, SES may prefer to pursue growth opportunities / markets via strategic partnerships as opposed to outright M&A.

Our new target price of €27.7 (from €28) reflects, inter alia, small cuts to our revenue and EBITDA forecasts, a weaker EURUSD assumption and updated capex assumptions (as per most recent management guidance). We perform a DCF-based SoTP valuation for SES (WACC of 7.8% and terminal growth rate of 2%) to derive our estimate of fair value.

Table 1: Sum of the parts valuation

	Valuation Methodology	EV (€'m)	FY14 EBITDA	FY15 EBITDA	EV / 2014 EBITDA	EV / 2015 EBITDA	Stake	Value to SES (€'m)	Value per share (€)	% of EV
Enterprise value	DCF (WACC: 7.8%; Term gr: 2.0%)	14,140.8	1,451.0	1,512.7	9.7x	9.3x	100.0%	14,140.8	€34.91	93.3%
O3b Networks	DCF (WACC: 7.8%; Term gr: 2.0%)	2,158.5	nm	nm	nm	nm	46.9%	1,011.9	€2.50	6.7%
Enterprise value		16,299.3						15,152.7	€37.40	100.0%
Less: proportionate net debt (FY14 year-end)								(3,838.9)		
Less: minority interests (book value)								(80.0)		
Equity value								11,233.9		
Shares in issue (forecast FY14 year-end)								405.1		
Value per ordinary share (EUR)								€27.7		
Current Share Price (EUR)								€24.9		
Dividend yield								4.7%		
Upside / (downside) to current share price								11.5%		
Total 1-year return								16.2%		

Source: Jefferies

We had previously highlighted how SES had compelling appeal against Eutelsat (valuation discount, faster growth, lower leverage, has lower earnings risk). We are therefore not surprised to see SES's discount to Eutelsat now completely reversed (Chart 3) after a difficult 2H13 period when the stock suffered some broker downgrades. With the Satmex acquisition now completed, Eutelsat's growth profile is once again superior to SES's, and on our numbers, Eutelsat justifies its slightly higher multiple (Table 2).

Table 2: SES and Eutelsat, key metrics

	SES	Eutelsat
2013-2016 revenue CAGR*	4.4%	6.4%
2014 EBITDA margin	73.3%	76.6%
2014 Leverage (net debt / EBITDA)**	2.49x	3.30x
Effective tax rate	12.5%	40.0%
2014 PE	16.2x	17.0x

Source: Company data, Jefferies estimates

*Calendarised to a December year end, unadjusted for FX

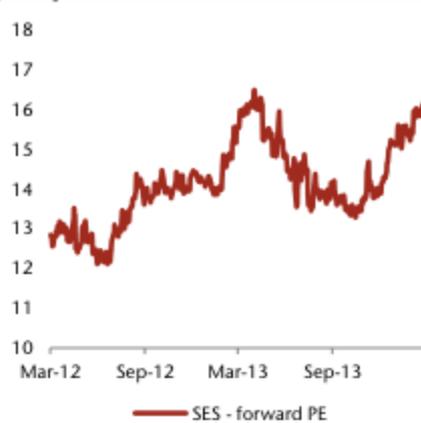
**Eutelsat leverage excludes impact of Satmex acquisition, which is still to get completed

Chart 1: SESG share price, 2-year performance



Source: FactSet

Chart 2: SES, forward 12-month PE, 2-year performance



Source: FactSet

Chart 3: Forward 12-month PE, Eutelsat vs. SES



Source: FactSet

We see three sources of potential re-rating from here

Given SES's re-rating back to close to all-time highs, we begin to question what catalysts could push the equity on from here. Three obvious ones spring to mind: 1. value accretive M&A; 2. buybacks / special dividends; and 3. improving satellite economics (here we're referring to lower launch costs). We look at the shareholder remuneration and M&A opportunities in the following section. In terms of changing satellite economics, this is a subject we've looked at previously (see the aforementioned "Stop fretting" note). We won't repeat the analysis presented there, but would remind investors of the conclusions: both electric propulsion and the disruptive presence of SpaceX in the market for launch services have potential (indeed, SpaceX is already beginning to crystallise) to bring down medium and long term capex assumptions for satellite replacement, in turn lifting DCF valuations materially.

The question of electric propulsion was revisited at the 4Q13 results. In October 2013, SES announced that it was co-investing with the European Space Agency in the Electra development programme. Electra aims at developing an innovative small and medium sized, fully electric platform, manufactured in Europe. SES is the prime contractor to ESA for the first phase of the programme and is working with the German firm, OHB System as a subcontractor for the corresponding manufacturing design of the platform. SES will decide at the end of this development phase whether the Electra platform is commercially viable. In parallel, SES will continue to discuss with all the other satellite manufacturers who are also developing and offering all-electric satellite platforms. This remains a medium term catalyst with limited visibility at the current time, though momentum is going in the right direction.

Considering a potential M&A roadmap

On a number of occasions now, we have highlighted the attractive cash return potential at SES. Management have been questioned again and again on what they intend to use its increasingly under-levered balance sheet for. It is worth recapping what SES has been saying now for some time on uses of cash, in order of preference: focus on organic growth capex; non-transformational M&A; a growing dividend (note that we already assume annual DPS growth of 10%); and finally special dividends / buybacks.

There has been increased speculation on the theme of M&A, something that SES has not gone out of its way to dampen. Speculation has grown from trying to second guess the proceeds, timing and likelihood of a take-out of the O3B minorities to more expansionist M&A. Indeed, on the 4Q13 results call and the subsequent analyst breakfast, SES actually began to be quite explicit on what it's looking for. These developments prompt us to more rigorously look at some of the potential targets.

SES will have ~€1.2bn of "firepower" by the end of FY14

SES's leverage at the end of 2013 was 2.8x, against a target leverage of 3.3x. By the end of 2014, we estimate leverage of only 2.5x and only 2.2x by the end of 2015. So depending on timing, SES has €1.2-1.6bn of leverage headroom with which it could make acquisitions (Table 3).

Table 3: Surplus cash after 10% yoy DPS commitment, leverage

	2014e	2015e	2016e	2017e	2018e
Equity free cash flow	615.8	680.8	735.1	755.7	763.5
Cash dividend (10% yoy growth)	(433.5)	(476.8)	(524.5)	(577.0)	(634.7)
Surplus cash after dividend	182.3	203.9	210.6	178.7	128.9
Pay-out ratio	77.4%	77.0%	78.5%	84.0%	91.4%
Net debt / EBITDA	2.49x	2.26x	2.06x	1.91x	1.76x
Leverage headroom (3.3x guidance)	0.81x	1.04x	1.24x	1.39x	1.54x
Leverage headroom (€m)	1,169.0	1,576.6	1,918.9	2,197.1	2,466.1

Source: Jefferies estimates

A take-out of the O3b JV partners could cost up to €1.1bn

Management have been consistently elusive on its potential obligations under the O3b options it holds. The only real steer they've given is that they've previously indicated that O3b has an equity valuation (in their view) of \$1.6-3.0bn (€1.1-2.2bn). Speaking at the post 4Q13 results analyst breakfast, management said that they're taking a prudent approach to the decision, waiting to get more visibility on the success of O3b rather than perhaps moving sooner and paying a lower price. They're talking of 2016 for a decision point. We estimate that proceeds to get to a controlling stake of 50.1% (under the right of first refusal option) would be small (only €35-70m), while a complete take out could be significantly larger (€0.58-1.12bn). See Table 4.

Table 4: O3b take-out (based on management comments around equity valuation for O3b)

	Bottom of range	Middle of range	Top of range
Equity value (\$)	1,500.0	2,250.0	3,000.0
Equity value (€)	1,089.0	1,633.6	2,178.1
Stake purchase to get to 50.1%	3.2%	3.2%	3.2%
Proceeds to get to 50.1%	35.1	52.6	70.1
Stake purchasing	49.9%	49.9%	49.9%
Proceeds to then get to 100%	543.4	815.2	1,086.9
Total proceeds	578.5	867.8	1,157.0

Source: Jefferies, company data

Screening for potential M&A targets

On the 4Q13 results, the CEO confirmed what many would take as a given, that the approach to M&A would be to focus on those regions of the world where SES lacks the "raw materials" for satellite services: namely, orbital slots and / or frequency rights. On this basis, the CEO went on to indicate that Asia Pacific is a region where SES feels under-resourced. Obviously, we must also factor in that SES will only look at "non-transformational" acquisitions.

Recent M&A targets discussed in the industry press have been Telesat and Spacecom. While SES would undoubtedly look at these opportunities, we assign a lower likelihood of it ultimately proceeding with an acquisition given that: 1) SES has a large operational overlap with Telesat in North America and already has critical mass in those markets; and 2) In the case of Spacecom, while it would certainly be of more interest with its exposure to Asia and Russia via Amos-4 at 65 degrees East, the mainstay of its business is Europe / Middle East / Africa via satellites at 4 degrees west.

Turning to the seemingly favoured Asia Pacific region, we see four standout credible M&A targets. We screened the universe based on size (SES has been clear it wants more mature businesses with established neighbourhoods) and whether there is a willing seller (which ruled out government-owned businesses). On these two criteria, we would expect the following four operators to be of particular interest to SES: Thaicom, AsiaSat, KoreaSat or

Measat. We have performed some preliminary operational, financial and valuation analysis of the four names:

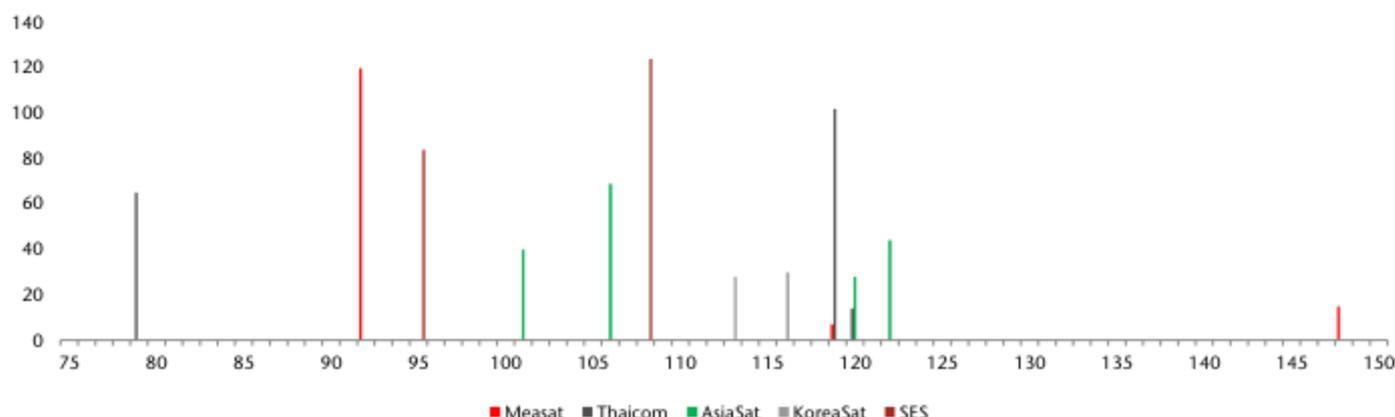
- Operational KPIs:** we quantify the number of active and planned satellites for each operator and the weighted fleet age (a metric we use in valuation analysis, see below). The details on fleet size, number of transponders, orbital slots and launch dates are given in Table 5 below. In Chart 4, we present a snapshot of existing / planned capacity by orbital slot for each operator. We believe that AsiaSat and Measat, with presence in the India market (a market we look at in some more detail below), would be of particular interest to SES given the scope to consolidate a neighbourhood in a key market (something that SES explicitly said would be of interest during the aforementioned analyst breakfast).

Table 5: Fleet details (shaded satellites are yet to be launched)

Slot	Satellite	Launched	Retires	Transponders				Weighting	Age (years)	Weighted Age
				Ku	Ka	C	Total			
<i>AsiaSat</i>										
106 E	AsiaSat 3S	21-Mar-99	21-Mar-14	16	0	28	44	16.4%	15.0	2.4
122 E	AsiaSat 4	12-Apr-03	12-Apr-18	16	0	28	44	16.4%	10.9	1.8
101 E	AsiaSat 5	31-Jul-09	31-Jul-24	14	0	26	40	14.9%	4.6	0.7
106 E	AsiaSat 7	25-Nov-11	25-Nov-26	17	0	28	45	16.7%	2.3	0.4
120 E	AsiaSat 6 (Thaicom 7)	30-Jun-14	30-Jun-29	0	0	28	28	10.4%	-0.3	0.0
106 E	AsiaSat 8	30-Jun-14	30-Jun-29	24	0	0	24	8.9%	-0.3	0.0
122 E	AsiaSat 9	31-Dec-16	31-Dec-31	16	0	28	44	16.4%	-2.8	-0.5
							269	100.0%	29.2	4.8
<i>Thaicom</i>										
119 E	Thaicom 4 (Ipstar 1)	11-Aug-05	11-Aug-20	102	0	0	102	56.4%	8.6	4.8
79 E	Thaicom 5 (Agrani 2)	27-May-06	27-May-21	14	0	25	39	21.5%	7.8	1.7
79 E	Thaicom 6	30-Jun-13	30-Jun-28	8	0	18	26	14.4%	0.7	0.1
120 E	Thaicom 7	30-Jun-14	30-Jun-29	0	0	14	14	7.7%	-0.3	0.0
							181	100.0%	16.7	6.6
<i>KoreaSat</i>										
113 E	KoreaSat 5	22-Aug-06	22-Aug-21	24	4	0	28	48.3%	7.5	3.6
116 E	KoreaSat 6	29-Dec-10	29-Dec-25	30	0	0	30	51.7%	3.2	1.6
							58	100.0%	10.7	5.3
<i>Measat</i>										
148 E	Measat 2	14-Nov-96	14-Nov-11	9	0	6	15	9.5%	17.3	1.7
119 E	Measat 5	11-Aug-05	11-Aug-20	7	0	0	7	4.5%	8.6	0.4
92 E	Measat 3	11-Dec-06	11-Dec-21	24	0	24	48	30.5%	7.2	2.2
92 E	Measat 3A (Measat 1R)	21-Jun-09	21-Jun-24	12	0	12	24	15.3%	4.7	0.7
92 E	Measat 3B	31-Mar-14	31-Mar-29	48	0	0	48	30.5%	-0.1	0.0
6 E	Measat 2A	31-Dec-14	31-Dec-29	9	0	6	15	9.5%	-0.8	-0.1
							157.1	100.0%	36.9	4.9

Source: Company Data

Chart 4: Number of existing / planned orbital slots in Asia*



Source: Jefferies, company data

- Preliminary valuation analysis.** Thaicom and AsiaSat are listed so you can take a view on SES's potential outlay from the quoted prices (Table 6). Notwithstanding, for all four names we perform a reverse-engineered valuation based on age-adjusted EV per transponder metrics for recent deals. In an ideal

world, we'd look at the price / book multiples for recently done deals as it is a measure that looks through the fleet size and age, but we don't have the data to hand. We prefer not to look at plain EV / EBITDA multiples for recent transactions as it's not that meaningful given the various stages of rollout / ramp-up of the targets. In the absence of the data needed for price/book multiples, we came up with the idea of adjusting the EV (in EUR) / Transponder multiple by the weighted age of the fleet as a proxy. The reasoning is that a transponder is a measure of EBITDA potential then it makes sense to look at price paid per transponder rather than EBITDA itself as the company may not yet be generating EBITDA from that transponder -- it needs to be adjusted for fleet age, as a buyer would be willing to pay more for a young satellite rather than an old one. For the GE-23, HellasSat and Satmex deals, the average EV / Age-adjusted transponder was 9.5x. We take that multiple and the weighted average age of each target to arrive at an EV in Euros, which we then translate into local currency and adjust for net debt. (Table 7).

Table 6: Financial and valuation metrics, M&A targets – both completed and speculated

	Completed deals			Speculated targets			Top Asia Pacifica targets			
	GE-23	Hellas Sat	Satmex	Space Com*	Optus*	Telesat*	AsiaSat	Thalcom	KoreaSat	MeaSat
Country							Hong Kong	Thailand	South Korea	Malaysia
Quoted?							Yes	Yes	No	No
Ownership							CITIC and GE own 76%	Shin Corp owns 41%	KT Corp and Government	Privately held
Active satellites	1	1	2	4	5	14	4	3	2	4
Planned	0	0	2	1	1	1	3	1	0	2
Blended age (years)	6.5	9.7	3.3	1.5	7.4	7.5	4.8	6.6	5.3	4.9
Revenue (local)	50.0	32.8	137.3	96.3	330.0	896.9	1,534.8	9,434.3	n/a	300.0
EBITDA (local)	39.0	25.2	107.0	62.6	264.0	711.2	1,366.3	5,032.2	n/a	240.0
Net debt (local)				387.3	0.0	3,043.2	(2,133.5)	4,914.7	n/a	0.0
EBITDA margin	78.0%	76.8%	77.9%	65.0%	80.0%	79.3%	89.0%	53.3%	n/a	80.0%
FX rate to EUR	1.367	1.000	1.367	4.805	1.525	1.518	10.606	32.545	1455.946	4.469
Revenue (EURm)	36.6	32.8	100.5	20.0	216.4	590.8	144.7	289.9	n/a	67.1
EBITDA (EURm)	28.5	25.2	78.3	13.0	173.1	468.5	128.8	154.6	n/a	53.7
Net debt (EURm)	0.0	0.0	0.0	80.6	0.0	2,004.6	-201.2	151.0	n/a	0.0
Enterprise value (local)	228.0	157.0	1,042.0	1,788.6	2,000.0	5,050.5	11,837.0	28,873.3	517,367.7	2,259.6
EV / EBITDA (local)	5.85x	6.23x	9.74x	28.57x	7.58x	7.10x	8.66x	5.74x	n/a	9.42x
Enterprise value (EURm)	166.8	157.0	762.4	372.2	1,311.4	3,326.9	1,116.1	887.2	355.3	505.6
Less: net debt (EURm)	0.0	0.0	0.0	(80.6)	0.0	(2,004.6)	201.2	(151.0)	n/a	0.0
Equity value (EURm)	166.8	157.0	762.4	291.6	1,311.4	1,322.3	1,317.2	736.2	355.3	505.6
Transponders (excl. launches)	38	30	172	73	111	705	173	167	58	79
Revenue per transponder (EUR)	0.96	1.09	0.58	0.27	1.95	0.84	0.84	1.74	n/a	0.85
EBITDA per transponder (EUR)	0.75	0.84	0.46	0.18	1.56	0.66	0.74	0.93	n/a	0.68
EV / transponder (EURm)	4.4x	5.2x	4.4x	5.1x	11.8x	4.7x	6.5x	5.3x	6.1x	6.4x
EV / transponder (aged adjusted, EURm)	7.7x	14.9x	5.7x	5.7x	23.3x	9.5x	9.5x	9.5x	9.5x	9.5x
	1.76	2.86	1.28							

Source: Jefferies, company data

*Spacecom EV based on quote market price for the Spacecom equity, Optus based on press speculation, Telesat based on previously described EV / Age-adjusted transponder analysis

Table 7: AsiaSat / Thaicom, enterprise value based on quoted market prices

	Local	EUR
<i>AsiaSat</i>		
Share price	HKD 33.8	
Shares	391	
Equity value	13,203	1,245
Net debt / (cash)	(2,134)	(201)
Enterprise value	11,069	1,044
<i>Thaicom</i>		
Share price	THB 39.5	
Shares	1,096	
Equity value	43,290	1,330
Net debt / (cash)	4,915	151
Enterprise value	48,204	1,481

Source: Jefferies, company data

Second guessing a potential outcome: O3b and Measat

Of the Asia Pacific targets, we believe Measat would be the most appealing name: it allows SES to both consolidate its position in the Indian market (both SES and MeaSat each serve 2 of the 7 pay-TV operators in that market) as well as gain key new slots at 119 and 148 degrees. MeaSat has leased 7% of the capacity on Ipstar 1, which is consistent with SES's view on high throughput satellite – SES believes in HTS but doesn't like the idea of dedicated payloads (and this is a reason that discounts Thaicom's suitability).

MeaSat also looks like a deal size that could get done (€506m equity value) in conjunction with an O3b take-out of minorities (see numbers above). We believe that MeaSat also has a more willing seller (if recent press is to be believed). We also like AsiaSat as a candidate, but the deal would be less digestible (€1.3bn). In the event a deal for Measat (or any other of the names) emerges, we would guide investors to appraise the price paid based on the analysis presented in Table 7 above, i.e., look to an EV / age-adjusted transponder multiple of 9.5x, at most.

Cash yield feels too low to be a front-running opportunity

With a long run cash flow yield of ~8.5%, and the typical satellite IRR of mid-teens, SES will perhaps feel that M&A should have a higher weighting within its options to re-leverage the balance sheet. Nonetheless, it's worth highlighting that given the dividend coverage, SES's free cash flow yield is a credible proxy for its shareholder return yield meaning, in aggregate out to 2018, it could return 38% of its equity value (Table 8).

Table 8: Potential shareholder distributions

	2014e	2015e	2016e	2017e	2018e
Dividend per share	€1.18	€1.29	€1.42	€1.57	€1.72
Yield	4.7%	5.2%	5.7%	6.3%	6.9%
Buyback per share	€0.45	€0.50	€0.52	€0.44	€0.32
Yield	1.8%	2.0%	2.1%	1.8%	1.3%
<i>Total yield</i>	<i>6.5%</i>	<i>7.2%</i>	<i>7.8%</i>	<i>8.1%</i>	<i>8.2%</i>
<i>Cumulative yield</i>	<i>6.5%</i>	<i>13.8%</i>	<i>21.6%</i>	<i>29.7%</i>	<i>37.9%</i>

Source: Jefferies estimates

The compression debate: it's in the guidance

In our "Stop fretting" note we looked in some detail at the industry debate around the revenue risk from advances in compression standards. We concluded that the risk from compression had been overblown. We injected some quantitative rigour into the debate with a hypothetical media broadcast model and looked at how the impact from migration to higher MPEG-4 and HEVC impacts the demand trajectory. We concluded that under the most credible worst case scenario investors should expect a -3.6% CAGR in demand out to 2022 (not insignificant, but not insurmountable). What we felt was much more likely to emerge was our base (flat CAGR) or bull (+1.3% CAGR) scenarios, which are consistent with all industry comment on the compression / ultra-HD trade-off.

While we feel comfortable that the SES share price is now reflecting a much more credible assessment of the risk, the debate will of course continue. At the 4Q13 results and the analyst breakfast that followed, the question again came up of how many channels SES carries that are on MPEG-2 / MPEG-4 and how SES sees the migration unfolding. SES's response was closely aligned with what Eutelsat management had said in response to a similar question at its 2Q14 (calendar 4Q13) results, which is essentially that it has a deep insight into exactly how and when its pay-TV customers (the large ones at least) will (or won't) do the MPEG-4 migration and how that freed up capacity will be re-used (or not). In the words of the SES CEO, "you can take it for granted that because of our strategic relationship with our large customers, we are quite well informed about their plans and we will not be taken by surprise when they will switch from MPEG-2 to MPEG-4".

To our mind, this uniformity of response again undermines the bear argument on the FSS names regarding compression risk. There will undoubtedly be universal migration to MPEG-4 and there will undoubtedly be pockets of cost savings taken by certain operators, but we remain of the conviction view that for the most part efficiencies will be reinvested in product improvements (higher resolution SD, more HD channel launches, early ultra-HD channel launches) to deliver an overall flat to small positive growth demand profile for developed markets video. The fact that management teams are saying they have excellent visibility into the migration and have already embedded it into our guidance leaves those who push the bear argument having to convince the market that they have more insight into the product cycle than the operators (i.e., Sky, SkyD etc.) and their key suppliers (SES, Eutelsat, etc.). We believe we remain on the right side of this debate.

Recap of the 4Q13 results and changes to estimates

SES reported another clean set of results on 21 February. It met FY13 guidance for constant FX growth, even in spite of the launch delays of Astra-2E and SES-8, with growth of 3.4% for the year (guidance of 3-4% range). Similarly, EBITDA growth landed at 2.8% against guidance of 2.5-3.5%. Results for the quarter were solid, with both revenue and EBITDA almost exactly in line with consensus (Table 9). The 4Q13 constant FX revenue growth of +6.3% compared to +2.9% / +6.1% in 3Q13 / 2Q13, with a strong performance from the European business particularly noteworthy (Table 10).

Table 9: SES, 4Q13 results

€'m	4Q12a	4Q13a	Growth (actual)	4Q13 (Cons)	Actual vs. Cons.	4Q13 (JEFe)	Actual vs. JEFe
Revenue	468.4	484.3	3.4%	483.0	0.3%	477.1	1.5%
EBITDA	334.6	355.4	6.2%	357.0	(0.4%)	352.5	0.8%
EBITDA margin	71.4%	73.4%	1.95pp	73.9%	(0.53pp)	73.9%	(0.49pp)

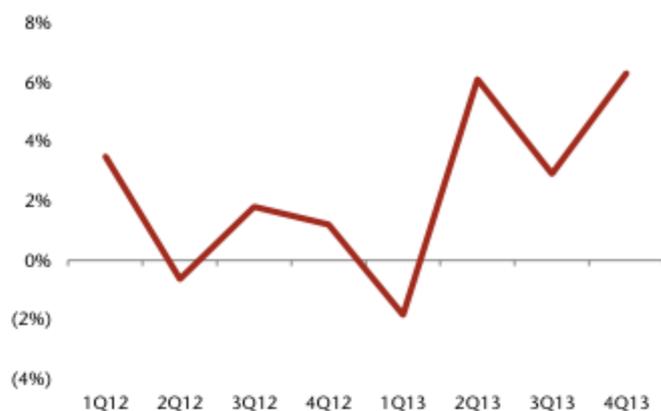
Source: Jefferies, company data, company-compiled consensus

Table 10: SES, revenue trends

	3Q12a	4Q12a	1Q13a	2Q13a	3Q13a	4Q13a
Reported (€'m)						
Europe	220.5	235.4	226.1	228.5	227.9	253.9
Growth	(9.1%)	(3.9%)	(5.9%)	0.6%	3.4%	7.9%
North America	123.9	105.9	95.0	108.1	100.6	94.3
Growth	36.2%	14.2%	(0.1%)	11.2%	(18.8%)	(11.0%)
International	123.3	127.1	119.7	133.1	139.2	136.1
Growth	27.9%	11.6%	4.3%	13.4%	12.9%	7.1%
Total	467.7	468.4	440.8	469.7	467.7	484.3
Growth	8.7%	3.7%	(2.1%)	6.3%	0.0%	3.4%
Local currency (\$'m)						
North America	154.8	137.4	126.3	140.1	132.8	128.1
Growth	18.2%	8.6%	0.7%	11.0%	(14.2%)	(6.7%)
International	154.1	164.8	159.1	172.5	183.7	184.9
Growth	11.1%	6.2%	5.4%	13.1%	19.2%	12.2%
Group const. FX growth	1.8%	1.2%	(1.8%)	6.1%	2.9%	6.3%

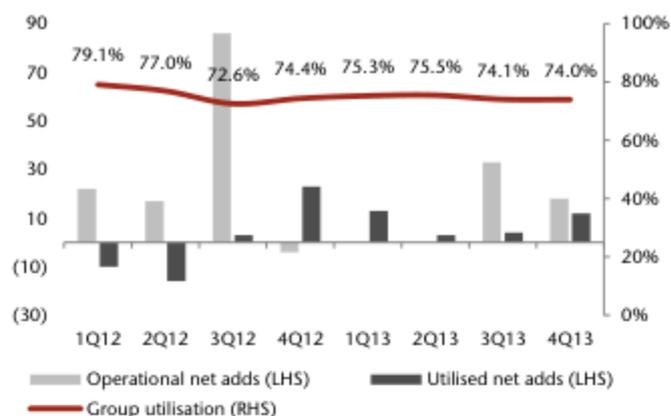
Source: Jefferies, company data, company-compiled consensus

Chart 5: Group, revenue growth (constant FX)



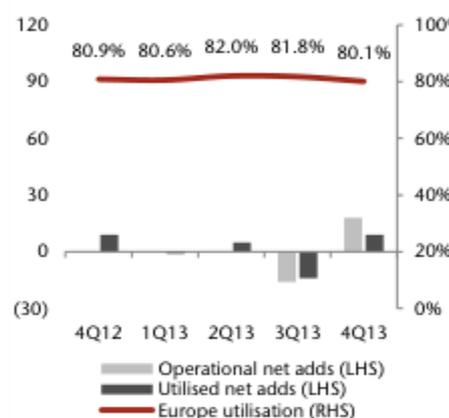
Source: Company data

Chart 6: Transponder net adds, transponder utilisation



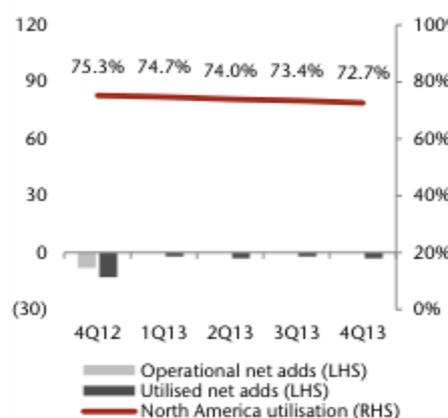
Source: Company data

Chart 7: Europe



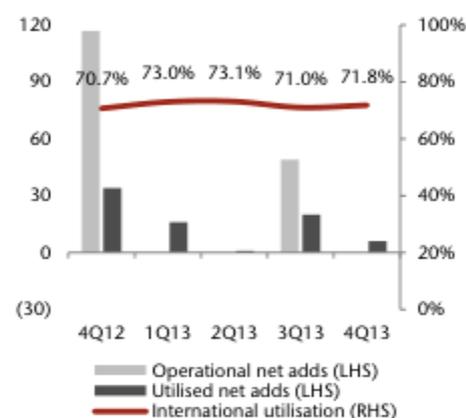
Source: Company data

Chart 8: North America



Source: Company data

Chart 9: International



Source: Company data

Changes to estimates, new guidance

We lower our revenue and EBITDA estimates by 1-2% and EPS by 4-6%. We are broadly aligned with consensus on all financial forecasts (Table 11). New guidance is for FY14 constant FX revenue and EBITDA growth of 6-7% and FY13-16 compounded constant FX revenue and EBITDA growth of 4-4.5%. We're aligned with guidance (Table 12).

Table 11: Changes to estimates

	FY14	FY15	FY16
Revenue			
JEfe prior	1,990.8	2,083.2	2,146.2
JEfe current	1,980.4	2,064.6	2,119.1
Change	(0.5%)	(0.9%)	(1.3%)
Consensus	1,982.7	2,058.4	2,113.6
JEfe vs. consensus	(0.1%)	0.3%	0.3%
EBITDA			
JEfe prior	1,467.2	1,535.3	1,581.8
JEfe current	1,451.0	1,512.7	1,552.7
Change	(1.1%)	(1.5%)	(1.8%)
Consensus	1,457.7	1,514.8	1,557.2
JEfe vs. consensus	(0.5%)	(0.1%)	(0.3%)

Source: Jefferies, company data

Table 12: SES guidance

	SES	Jefferies	Consensus
2014			
Revenue growth (constant FX basis)	6-7%	6.3%	6.5%
EBITDA growth (constant FX basis)	6-7%	6.3%	6.8%
FY2014-16			
Revenue CAGR	4.0-4.5%	4.4%	4.3%
EBITDA CAGR	4.0-4.5%	4.4%	4.5%

Source: Jefferies, company data, FactSet consensus

Capacity growth underpins 3-year guidance

We look at the growth in capacity over the guidance period to give us comfort on revenue growth expectations. In Table 13 we take the expansion capacity from SES's upcoming launches and look at what that means in terms of compounded capacity growth over the 2013-16 period. As previously mentioned, revenue guidance is for 4.0-4.5% constant FX revenue and EBITDA growth 2013-16 while capacity will only grow 2.4% over that same period (Table 13, Chart 10).

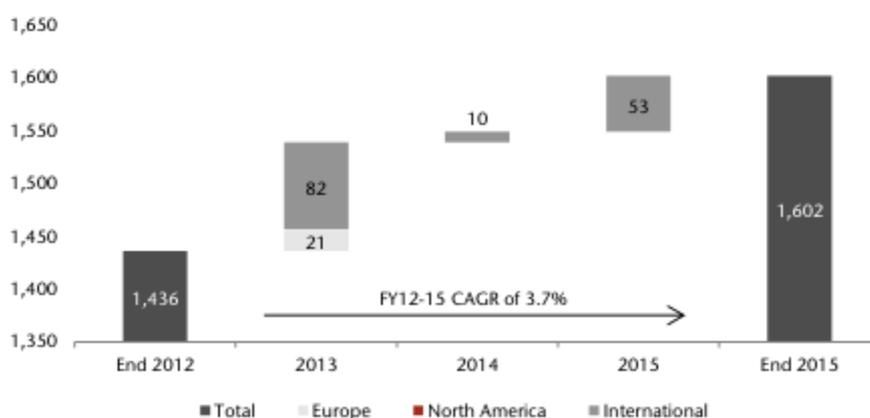
While there is a lower headline capacity growth number, we have to take into account that the baseline *utilisation* is very low (only 74% at the end of FY13, compared to 74% in 2012 and 81% in 2011), not least due to the German analogue switch off in 2012, which has still to be fully re-contracted. To take the FY13 year-end utilisation up to the normalised peak capacity of ~80%, that would equate to 100 transponders. If we added 100 transponders to the 2014 capacity expansion in Table 13 below, that would take the 2013-16 CAGR up to 4.5%, in line with the revenue guidance. In summary, we see room within the low utilisation and expansion capacity coming on-line to deliver the revenue growth the company is guiding to.

Table 13: Operational transponder growth, measured in # of transponders

	End 2013	2014	2015	2016	End 2016	2013-16 CAGR	2013-15 CAGR
Europe	347	21	0	0	368	2.0%	3.0%
North America	384	0	0	0	384	0.0%	0.0%
International	756	10	53	27	846	3.8%	4.1%
Total	1,487	31	53	27	1,598	2.4%	2.8%

Source: Jefferies, company data

Chart 10: SES, number of operational transponders, 2012-15



Source: Jefferies estimates, company data

Europe: solid progress, forecasts nudge up

4Q13 was the third full quarter of growth normalisation for the European business given the prior year comparatives have no revenue related to German analogue TV (switched off in April 2012). Revenue of €253.9m was +7.0% ahead of JEF, and implied a yoy growth rate of 7.9% (from 3.4% / 0.6% in 3Q13 / 2Q13). Management highlighted solid operational progress across its entire European footprint. The HD+ platform continued to

perform well with 1.4m paying households (+120k on 3Q13 from +80k in 3Q13). We lift our Europe revenue forecasts by 3%.

Table 14: Europe revenue forecast

€'m	FY14	FY15	FY16
Old forecast	965.1	989.2	1,004.1
Growth	5.0%	2.5%	1.5%
New forecast	992.6	1,017.4	1,032.7
Growth	6.0%	2.5%	1.5%
Change	2.8%	2.8%	2.8%

Source: Jefferies estimates

North America

At the 3Q13 results, management guided that US government business was up yoy in 1H13 but likely to be flat in 2H13. As expected, revenue trends normalised somewhat in 4Q13 after the 3Q13 print dealt with a difficult prior year comparative. SES delivered 4Q13 local currency growth of -6.7%, which compares to -14.2% / +11.0% in 3Q13 / 2Q13. North America revenue was -3.7% behind JFE.

SES proved far more resilient to US sequestration than peers in 2013 (note that Intelsat experienced -14% declines in USG business in its 4Q13 results). In its commentary, SES highlighted the difficult operating environment for US government business but again stated that there is good growth potential in the medium to long term as the demand to serve mobile operations continues to increase. A lower 2013 revenue number and lower growth expectations for FY14 (to -1.0% from flat yoy previously) bring our forecasts down by 3% in local currency.

Table 15: North America revenue forecast (in local currency)

€'m	FY14	FY15	FY16
Old forecast	538.3	538.3	538.3
Growth	1.0%	0.0%	0.0%
New forecast	522.4	522.4	522.4
Growth	(1.0%)	0.0%	0.0%
Change	(2.9%)	(2.9%)	(2.9%)

Source: Jefferies estimates

International

International revenue of €136.1m in the quarter was -4.5% behind JFE. Local currency growth of 12.2% compared to +19.2% / +13.1% in 3Q13 / 2Q13. We have now removed the revenue associated with Glocom (sold in 4Q13, €12m in FY13) and lower our growth expectations by 2-4pp. The result is a 4-6% downgrade in our International revenue forecasts.

Table 16: International revenue forecast (in local currency)

€'m	FY14	FY15	FY16
Old forecast	823.6	914.2	978.2
Growth	16.0%	11.0%	7.0%
New forecast	788.5	867.3	919.4
Growth	12.5%	10.0%	6.0%
Change	(4.3%)	(5.1%)	(6.0%)

Source: Jefferies estimates

Update on O3b

There have been concerns in the market as to the immediate outlook for O3b given the emergence of in-orbit anomalies in the first four satellites in September 2013. O3b pulled the September 2013 launch for the second batch of four giving them time to make modifications to satellite 5-8 to avoid another anomaly. Satellites 5 to 8 are expected to be launched in late 1Q14 (in line with our expectations following the decision to delay launch taken in September).

At the post 4Q13 results analyst breakfast, the CEO indicated that while the transmission capability of the 1-4 satellites was unaffected, perhaps the lifetime would be less than expected (without quantifying by how much). He further suggested that insurance may well cover the service impairment (again, without being very specific on the matter).

At the 2Q13 results management said that satellites 9-12 would be launched in 2H14, though following the delay to 5-8, we would expect this to be pushed back to the very end of 2014 – indeed, at the 3Q13 results, management said that funding was being looked at for the 9-12 launch. As far as satellites 13-20, there hasn't been specific comment on these in a number of quarters. It was the original intention to have all 20 up by FY17.

India: satcom policy changes on the horizon?

We have previously highlighted the explosive growth of DTH television in India. Euroconsult says that demand for satellite capacity for DTH broadcasting grew at a CAGR of over 7% from 2008-2013. The outlook is equally robust:

- The trade association, The Cable and Satellite Broadcast Association of Asia (CASBAA) predicts (in its March 2013 white paper, "The Indian Capacity Crunch") that the number of TV channels in India will be 1,300 by 2017, from 821 in 2012, of which only 130 will be in HD.
- In its inaugural Indian Satcom Value Chain and Markets report (23 January 2014), Euroconsult expects demand for C- and Ku-band capacity is expected to grow at 6% p.a. between 2013 and 2023 in addition to new demand for satcom services using HTS systems that should see strong take up towards the end of the decade.

Chart 11: India, television subscriber net adds by platform

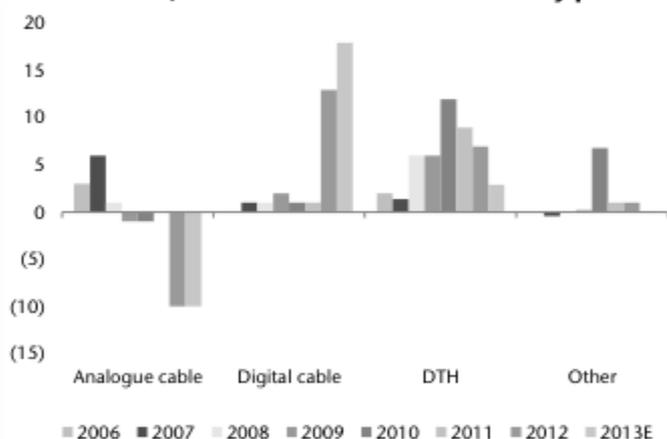
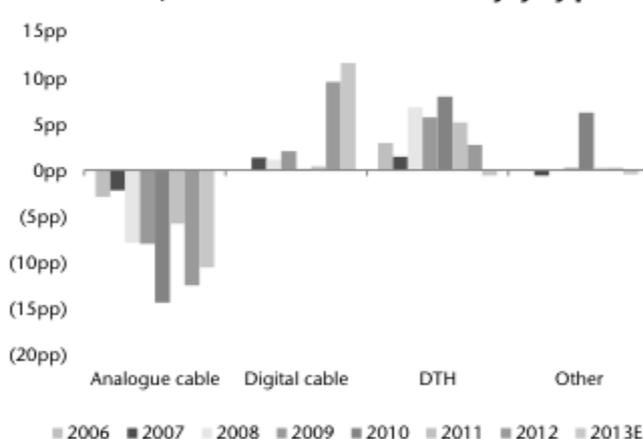


Chart 12: India, television subscriber share yoy by platform



Source: Federation of Indian Chambers of Commerce & Industry

Source: Federation of Indian Chambers of Commerce & Industry

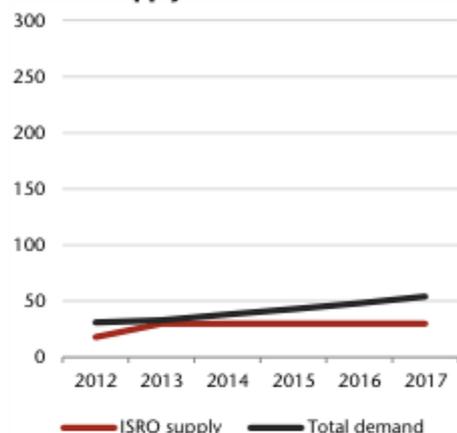
SES capitalised on the growth potential of the Indian market with the launch of SES-8 in December 2013, building on the presence at the key 95 degrees east orbital slot (where NSS-6 is already located). SES also addresses India from 108 degrees east and, to a lesser extent, 57 degrees east. SES will launch SES-9 in mid-2015 to replace NSS-6 as well as bring material expansion capacity too to the 95 degrees east slot.

The aforementioned growth outlook is perhaps now taken for granted (not least because the Euroconsult and CASBAA forecasts have been out for a number of months now). What is noteworthy at this point is the potential change to the satellite procurement process that could perhaps unlock an accelerated growth profile.

We begin by recapping the current structure. The Indian Space and Research Organization (ISRO) is present all along the satcom value chain including for satellite manufacturing, launch, satellite operations, regulations and partially for services. ISRO is also the owner and operator of India's "Insat" satellite fleet, which has first priority for Indian customers. Satellite failures in the past few years, coupled with huge growth in demand, have forced ISRO to lean more heavily on non-Indian satellite operators like SES for capacity.

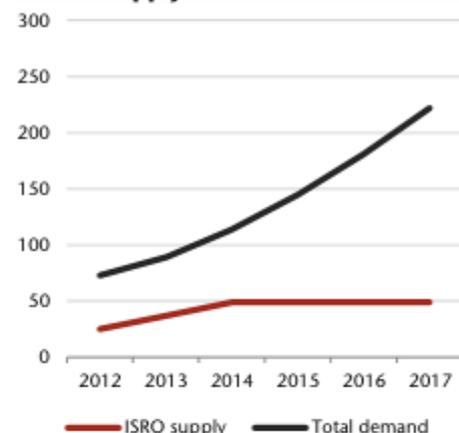
According to CASBAA, there is a looming capacity crunch. In its March 2013 report, CASBAA estimated that in the C-band, only ~160 channels out of the ~660 operational channels were carried by INSAT satellites, the balance being transmitted on foreign satellites. There is a similar picture in the Ku-band: out of the total ~73 transponders used by Indian DTH broadcasters, only 18 were on INSAT satellites. CASBAA's forecasts suggest that the shortfall between demand (disaggregated again, by C-band and Ku-band) will only grow from here (Charts 13-15). Since the CASBAA report, we've seen ISRO procure GSAT-9 (6 C-band transponders, 24 Ku-band), GSAT-15 (24 Ku-band) and GSAT-16 (36 C-band and 12 Ku-band), which will certainly eat into the shortfall, but not get anywhere close to addressing it.

Chart 13: India, C-band, total demand vs. ISRO supply



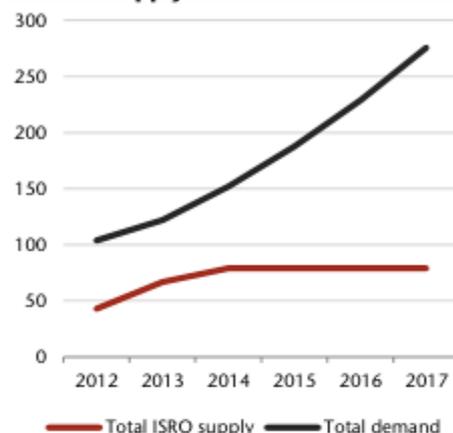
Source: CASBAA (March 2013)

Chart 14: India, Ku-band, total demand vs. ISRO supply



Source: CASBAA (March 2013)

Chart 15: India, total satellite demand vs. ISRO supply



Source: CASBAA (March 2013)

According to Euroconsult, and wider industry press, we should expect to see a change in India's satcom policy in 2014. This should bring about positive changes and contribute to additional growth for SES. We should expect to see the following positive developments:

- **Simplified procurement process.** Currently, Indian DTH operators are required to apply to ISRO (specifically, Antrix, ISRO's marketing arm) for satellite capacity. Only once Antrix confirms that it has no available supply can operators then place an official request to Antrix for capacity. Antrix then aggregates all requests and approaches foreign satellite operators and negotiates on behalf of the DTH operators. This is a costly and inefficient disintermediation of the value chain by the Indian government and creates unnecessary market inefficiencies. We would expect to see a rationalisation of this process.
- **Contract duration.** Capacity secured with foreign suppliers via Antrix (as described above) is typically under three year contracts. We'd see a benefit to long term planning and visibility for DTH from the ability to procure capacity for a longer duration (perhaps equal to the average European contract length of 10 years), which in turn could unlock latent demand for the foreign operators.

Table 17: SES revenue forecasts (local currency)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13e	FY13e	FY14e	FY15e	FY16e
Europe (€m)	240.3	227.1	220.5	235.4	226.1	228.5	227.9	253.9	936.4	992.6	1,017.4	1,032.7
Growth	3.7%	(3.6%)	(9.1%)	(3.9%)	(5.9%)	0.6%	3.4%	7.9%	1.4%	6.0%	2.5%	1.5%
North America (\$m)	125.4	126.3	154.8	137.4	126.3	140.1	133.2	94.3	398.0	393.7	393.7	393.7
Growth	(2.4%)	(2.5%)	18.2%	8.6%	0.7%	11.0%	(13.9%)	(11.0%)	(5.7%)	(1.1%)	0.0%	0.0%
International (\$m)	151.4	152.5	154.1	164.8	159.1	172.5	184.4	136.1	528.1	594.1	653.5	692.8
Growth	8.6%	7.4%	11.1%	6.1%	5.1%	13.1%	19.7%	7.1%	9.4%	12.5%	10.0%	6.0%
Total revenue (€m)	450.2	441.7	467.7	468.4	440.8	469.7	467.7	484.3	1,862.5	1,980.4	2,064.6	2,119.1
Constant FX growth	3.5%	(0.6%)	1.8%	1.2%	(1.8%)	6.1%	2.9%	3.4%	1.9%	6.3%	4.3%	2.6%

Source: Jefferies, company data

Table 18: SES – P&L forecasts (€'m)

	2H11a	1H12a	2H12a	1H13a	2H13a	FY13a	FY14e	FY15e	FY16e
Revenue	881.7	891.9	936.1	910.5	952.0	1,862.5	1,980.4	2,064.6	2,119.1
Growth	(1.0%)	4.8%	6.2%	2.1%	1.7%	1.9%	6.3%	4.3%	2.6%
Net operating costs	(238.6)	(226.8)	(254.6)	(248.5)	(249.3)	(497.8)	(529.4)	(551.9)	(566.4)
% of revenue	27.1%	25.4%	27.2%	27.3%	26.2%	26.7%	26.7%	26.7%	26.7%
Growth	1.1%	3.1%	6.7%	9.6%	(2.1%)	3.4%	6.3%	4.3%	2.6%
EBITDA	643.1	665.1	681.5	662.0	702.7	1,364.7	1,451.0	1,512.7	1,552.7
Margin	72.9%	74.6%	72.8%	72.7%	73.8%	73.3%	73.3%	73.3%	73.3%
Growth	(1.8%)	5.3%	6.0%	(0.5%)	3.1%	1.3%	6.3%	4.3%	2.6%
D&A	(236.9)	(253.6)	(302.5)	(253.4)	(260.1)	(513.5)	(466.3)	(472.3)	(474.9)
% of capex	48.2%	99.1%	80.0%	Nm	149.0%	136.0%	97.1%	100.5%	105.5%
% of revenue	26.9%	28.4%	32.3%	27.8%	27.3%	27.6%	23.5%	22.9%	22.4%
Operating income	406.2	411.5	379.0	408.6	442.6	851.2	984.7	1,040.5	1,077.8
Margin	46.1%	46.1%	40.5%	44.9%	46.5%	45.7%	49.7%	50.4%	50.9%
Growth	1.0%	2.4%	(6.7%)	(0.7%)	16.8%	7.7%	15.7%	5.7%	3.6%
Interest income	(3.2)	3.0	3.5	1.8	7.8	9.6	5.4	6.1	7.1
Growth	(184.2%)	(83.4%)	(209.4%)	(40.0%)	122.9%	47.7%	(43.3%)	12.8%	14.9%
Interest expense	(94.5)	(83.0)	(93.1)	(84.3)	(98.8)	(183.1)	(192.0)	(186.2)	(187.6)
Effective interest rate	4.5%	3.9%	4.4%	4.0%	4.3%	4.3%	4.5%	4.5%	4.6%
Profit before tax	308.5	331.5	289.4	326.1	351.6	677.7	798.2	860.5	897.2
Margin	35.0%	37.2%	30.9%	35.8%	36.9%	36.4%	40.3%	41.7%	42.3%
Growth	(3.2%)	(2.8%)	(6.2%)	(1.6%)	21.5%	9.1%	17.8%	7.8%	4.3%
Income tax expense	20.9	(27.9)	70.1	(45.3)	(42.2)	(87.5)	(123.7)	(142.0)	(157.0)
Effective tax rate	(6.8%)	8.4%	(24.2%)	13.9%	12.0%	12.9%	15.5%	16.5%	17.5%
Income from Associates	(4.8)	(5.1)	(8.9)	(12.3)	(9.4)	(21.7)	(51.1)	(22.4)	8.4
Growth	118.2%	41.7%	85.4%	141.2%	5.6%	55.0%	135.6%	(56.2%)	(137.5%)
Profit on continuing operations	324.6	298.5	350.6	268.5	300.0	568.5	623.3	696.1	748.6
Margin	36.8%	33.5%	37.5%	29.5%	31.5%	30.5%	31.5%	33.7%	35.3%
Growth	13.8%	(0.7%)	8.0%	(10.1%)	(14.4%)	(12.4%)	9.6%	11.7%	7.5%
Loss after tax from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth	(100.0%)	(100.0%)	nm	nm	nm	nm	nm	nm	nm
Minority interests	1.0	(0.2)	(0.1)	(0.5)	(1.5)	(2.0)	(2.1)	(2.2)	(2.2)
Growth	(266.7%)	(84.6%)	(110.0%)	150.0%	1400.0%	566.7%	6.0%	4.0%	2.0%
Net income attributable	325.6	298.3	350.5	268.0	298.5	566.5	621.2	693.9	746.3
Margin	36.9%	33.4%	37.4%	29.4%	31.4%	30.4%	31.4%	33.6%	35.2%
Growth	13.5%	2.1%	7.6%	(10.2%)	(14.8%)	(12.7%)	9.7%	11.7%	7.5%

Source: Jefferies estimates, company data

Table 19: SES – cash flow forecasts (€'m)

	2H11a	1H12a	2H12a	1H13a	2H13a	FY13a	FY14e	FY15e	FY16e
Profit from continuing operations before tax						677.7	747.1	838.1	905.6
Loss from discontinued operations before tax						0.0	0.0	0.0	0.0
Profit before tax						677.7	747.1	838.1	905.6
Taxes paid						(30.6)	(123.7)	(142.0)	(157.0)
Finance costs						147.7	186.5	180.0	180.6
Depreciation and amortisation						513.5	466.3	472.3	474.9
Impairments						(42.3)	0.0	0.0	0.0
Other non-cash						24.2	51.1	22.4	(8.4)
Operating profit before working capital changes						1,290.2	1,327.3	1,370.8	1,395.7
Change in inventories						1.3	0.0	0.0	0.0
Changes in trade and other debtors						(211.6)	0.0	0.0	0.0
Changes in prepayments and deferred charges						2.9	0.0	0.0	0.0
Changes in trade creditors						(60.3)	0.0	0.0	0.0
Changes in payments on account						(21.2)	0.0	0.0	0.0
Changes in upfront payments and deferred income						147.2	0.0	0.0	0.0
Net cash flows from operating activities						(141.7)	0.0	0.0	0.0
Net operating cash flow	586.6	593.2	640.2	531.2	617.3	1,148.5	1,327.3	1,370.8	1,395.7
Net disposal / (purchase) of intangible assets	(2.7)	(0.1)	(1.5)	0.0	(5.5)	(5.5)	0.0	0.0	0.0
Capex	(491.9)	(255.9)	(378.1)	(202.9)	(174.6)	(377.5)	(480.0)	(470.0)	(450.0)
Disposal of tangible assets	6.4	0.0	3.2	0.0	0.2	0.2	0.0	0.0	0.0
Acquisition of non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposal of equity investments	0.0	0.0	(68.1)	0.0	15.5	15.5	0.0	0.0	0.0
Investment in associates	(7.3)	(30.5)	34.6	0.0	(12.3)	(12.3)	0.0	0.0	0.0
Dividends from associates	0.0	0.0	0.0	0.0	14.2	14.2	0.0	0.0	0.0
Changes in other non-current financial assets	0.0	0.0	0.0	(57.0)	0.0	(57.0)	0.0	0.0	0.0
Other investing activities	(2.6)	3.8	(5.1)	14.0	(13.9)	0.1	0.0	0.0	0.0
Net cash flow from investing activities	(498.1)	(282.7)	(415.0)	(245.9)	(176.4)	(422.3)	(480.0)	(470.0)	(450.0)
Net drawdown / (repayment) of borrowings	(56.7)	29.1	(23.1)	574.3	(391.9)	182.4	(112.6)	(112.6)	(33.3)
Buybacks	0.0	86.7	(86.7)	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid, net of dividends received	0.0	(320.9)	(30.1)	(356.5)	(33.7)	(390.2)	(433.5)	(476.8)	(524.5)
Dividends paid to non-controlling interests	0.0	(2.7)	(2.9)	0.0	(5.6)	(5.6)	0.0	0.0	0.0
Interest on borrowings	(96.8)	(94.3)	(100.2)	(85.6)	(94.7)	(180.3)	(231.5)	(220.0)	(210.6)
Net proceeds on treasury shares sold	7.6	11.8	32.3	23.3	(1.5)	21.8	0.0	0.0	0.0
Financing received from non-controlling interests	58.5	0.3	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow from financing activities	(87.4)	(290.0)	(211.0)	155.5	(527.4)	(371.9)	(777.7)	(809.5)	(768.4)
FX impact	0.2	0.5	(13.2)	(15.3)	(34.8)	(50.1)	0.0	0.0	0.0
Increase / (decrease) in cash	1.3	21.0	1.0	425.5	(121.3)	304.2	69.7	91.3	177.2

Source: Jefferies estimates, company data

Table 20: SES – cash flow forecasts (€'m)

	2H11a	1H12a	2H12a	1H13a	2H13a	FY13a	FY14e	FY15e	FY16e
EBITDA	643.1	665.1	681.5	662.0	702.7	1,364.7	1,451.0	1,512.7	1,552.7
Capex	(491.9)	(255.9)	(378.1)	(202.9)	(174.6)	(377.5)	(480.0)	(470.0)	(450.0)
Operating cash flow	151.2	409.2	303.4	459.1	528.1	987.2	971.0	1,042.7	1,102.7
Growth	(53.4%)	41.6%	100.7%	12.2%	74.1%	38.5%	(1.6%)	7.4%	5.7%
Net cash flow from operating activities	586.6	593.2	640.2	531.2	617.3	1,148.5	1,327.3	1,370.8	1,395.7
Net interest paid	(96.8)	(94.3)	(100.2)	(85.6)	(94.7)	(180.3)	(231.5)	(220.0)	(210.6)
Capex	(491.9)	(255.9)	(378.1)	(202.9)	(174.6)	(377.5)	(480.0)	(470.0)	(450.0)
Equity free cash flow	(2.1)	243.0	161.9	242.7	348.0	590.7	615.8	680.8	735.1
Growth	(102.1%)	250.1%	(7809.5%)	(0.1%)	114.9%	45.9%	4.2%	10.6%	8.0%

Source: Jefferies estimates, company data

Company Description

SES, through subsidiaries, offers global satellite broadband communications services and is the 2nd largest satellite operator. The Company offers feeds for cable television networks, Internet access, corporate networks, network facilities, telecommunications services, and audiovisual broadcasting.

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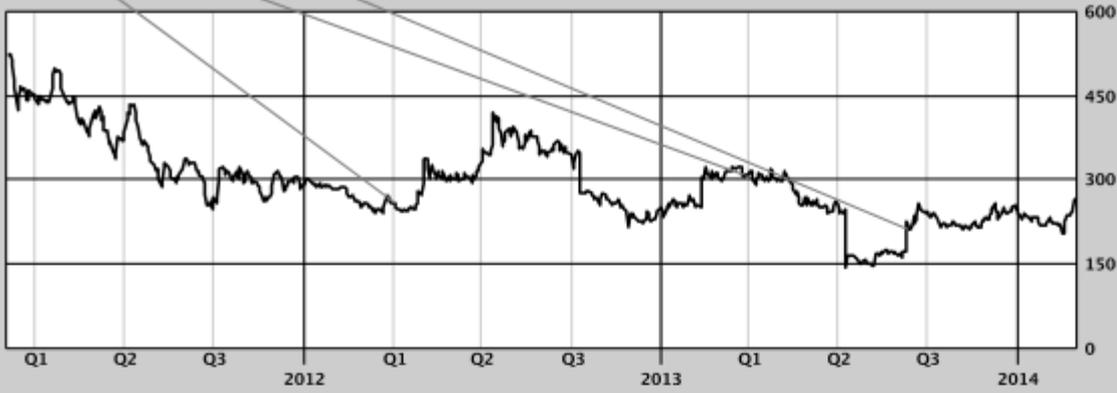
Other Companies Mentioned in This Report

- Avanti Communications (AVN LN: p273.00, BUY)
- Eutelsat (ETL FP: €23.17, BUY)
- Inmarsat plc (ISAT LN: p678.50, BUY)



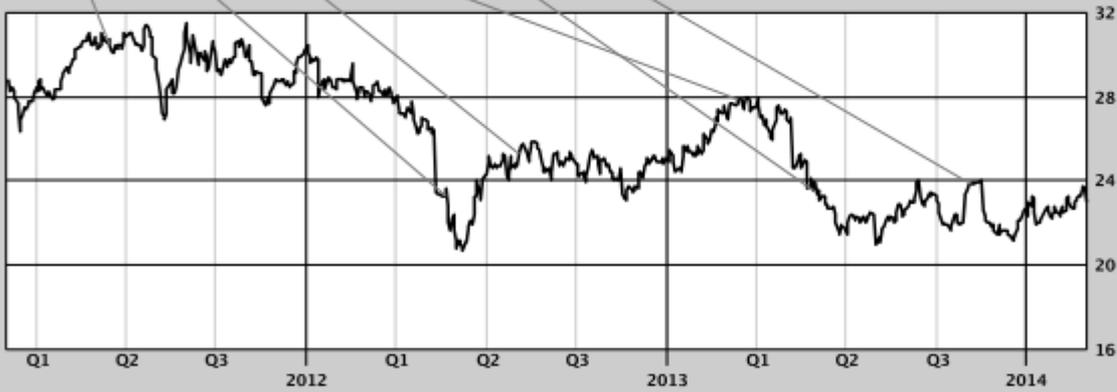
Rating and Price Target History for: Avanti Communications (AVN LN) as of 03-03-2014

04/03/12 B:600p 03/28/13 B:640p 09/12/13 B:580p



Rating and Price Target History for: Eutelsat (ETL FP) as of 03-03-2014

06/15/11 I:H-EUR30 05/21/12 H-EUR25 08/03/12 B-EUR30 03/15/13 B-EUR31 05/29/13 B-EUR27.7 11/06/13 B-EUR27.2





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			Count	Percent
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