

**VIVENDI**

Current Price €19.05

**Target Price €23.0 (upside of 20%)****Blue Sky €29.0 (upside of 50%)****BUY****CONGLOMERATE/ MUSIC/ MEDIA****France**

May 22, 2017

**A (NEW) POWERHOUSE IN CONTENT/PRODUCTION & DISTRIBUTION BUSINESSES**

Growth is coming back in music with streaming and Canal + is bottoming out

Vivendi, through its subsidiaries, has operations ranging from music, games &amp; television to film and telecoms.

UMG is turning around as streaming more than compensate for downloads. Growth is coming back for the first time since the early 2000. UMG is the largest of the 3 major (Warner Music and Sony Music) with a 35%+ market share and more than 3mn titles. Increasing adoption of paid streaming should drive growth at UMG. In early May, UMG's signed a partnership with TENCENT, which has a platform of 890 mn monthly average users and they are the perfect door to China where UMG has no revenues. Streaming, already accounts for more than 50% of UMG's revenues with physical revenues around 30% and the balance from licensing. Streaming is more profitable and should get the lion share of future revenues. In 2016, 4 of the 5 biggest markets have had stronger than expected growth and 2017 should confirm the turnaround. Streaming's penetration is "only" 3% and if one assume that it will grow to 15% in 5 years the value UMG is 34/share of Vivendi with a 25% ebitda margins and using a discount rate of 15%. The market is expecting an IPO of the business over the next few years which would bring a strong re-rating of Vivendi shares.

Canal+ has been losing market share over the past few years as they have changed their business model, with less premium programming (sports) and more in house productions, including series, talk show and games. The company stated in its earnings presentation that Canal should troughed in the 1H of 2017. Canal has seen a strong pick up in third party (Free and Orange) subscriptions. While revenues are much lower (€4 vs. 20+) there is no cost (set top boxes and other customers acquisitions cost) associated with these subscribers. The risk for Canal is a potential cannibalisation of customers by the telcos. As soon as Canal manages to again grow their subscriber base, Vivendi could be re-rated by as much as €3.5/share or 20% using peers ev/sales average multiple (see enclosed spreadsheet). An article in Le Figaro, on March 31, stated that Canal+ has picked up 100k in the 1<sup>st</sup> Q on the back of the new tiered pricing structure (Nov 2016). There has been a lot of talks/articles on Orange being interested in buying Canal+ which seems very unlikely following the stake building in Mediaset, but a stronger link is likely. Vivendi has been building up a hostile stake (28.8%) in Mediaset at the end of last year. While a closer link with Mediaset would allow for large synergies in programming and purchasing, Mediaset largest shareholder, Fininvest (40%), is trying to block the move and the Italian regulator asked Vivendi to sell its stake down to 10% within 12 months. Vivendi should/could appeal. Canal + is valued at between €4-and-9bn based on peers multiples. Mr. Bolloré is moving his pawn in Italy with Vivendi having nominated 10 of 15 board members of Telecom Italia.

Vivendi quoted assets are worth close to €6/share (32% of mkt cap) and they have €0.5bn in net cash. If they wanted to further strengthen their position in media and telecom they could raise close 5bn in cash with their net debt to ebitda ratio around 3x and net debt to equity at less than 25%. Vivendi announced in early May that they would buy Bolloré's stake in Havas which should be accretive by about 10%.

Lack of clarity over future strategy and complexity could scare investors, but there is an immense upside potential if both Canal Plus and UMG's turnsaround are confirmed. This would bring a huge re-rating of the stock. At current prices, the market is assuming a bear case scenario. Co has guided c5% organic growth for 2017 (would be a 1<sup>st</sup> in 10 years) and the market has rewarded the stock with a 10% under performance.

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				black = calculated / formulas				blue = bbg consensus data		red = input	
VIVENDI				EPS	P/E	EBITDA	ev/ebitda	CE	ebit	ROCE	
VIV FP Equity	19.03	Discount	Upside	LAST YR	0.565	33.7	1,726	13.61			
NAV	24.21	-21.40%	27%	CURRENT YR	0.675	28.2	1,318	17.82			
Blue Sky	31.47	-39.53%	65%	NEXT YR	0.815	23.3	1,540	15.26	2,692	1,156	
Sh Out	1,260	NET DEBT	- 1,005	NEXT YR+1	0.949	20.1	1,724	13.62		1,309	
MKT CAP	24,491	EV	23,486	2020	1.12		1,890				
Pension Liabilities	742.00	% ev	3.16%	GAGR 3yr	18.87%			-0.04% from 2016			
Avg Daily Vol	75,292,043	EURO		GAGR 3yr	18.39%		12.77%	from 2017			
Quoted assets:		Price	MKT CAP	Stake	STAKE VAL	PER SHARE	%MKT CAP		Blue Sky	PER SHARE	
TELECOM ITALIA SPA	TIT IM Equity	0.8785	18,007	23.90%	4,304	3.42	18.0%		4,820	3.83	
MEDIASET SPA	MS IM Equity	3.644	4,399	28.80%	1,267	1.01	5.3%		1,520	1.21	
UBISOFT ENTERTAINMENT	UBI FP Equity	47.81	5,115	25.20%	1,289	1.02	5.4%		1,444	1.15	
TELEFONICA SA	TEF SM Equity	9.853	52,620	0.95%	500	0.40	2.1%		560	0.44	
MEDIOBANCA SPA	MB IM Equity	9.015	7,985	5.02%	401	0.32	1.7%		461	0.37	
GROUPE FNAC	FNAC FP Equity	62.88	1,812	11.30%	205	0.16	0.9%		229	0.18	
Net Cash			1,005	100.00%	1,005	0.80	4.2%	33.2%	1,126	0.89	
TOTAL QUOTED ASSETS					8,970	7.12	37.4%		10,046	7.98	
		Peers		Peers		stake		Per	% mkt		
2017	Revenues	EBITDA	EV/Sales	Value	EV/EBITDA	Value	value	share	cap	Blue Sky	
UMG	5640	912	3.48	19,644	14.24	12,991	16,317	12.96	68.1%	19,644	
Canal +	5423	636	1.49	8,064	9.57	6,084	4,563	3.62	19.0%	8,064	
Gameloft	291	33	4.71	1,369	12.70	419	600	0.48	2.5%	1,369	
Vivendi Village	225	-21	2.52	566	- 1.00	21	195	0.16	0.8%	566	
Spotify		5% stake		8,500				-	0.0%		
OTHER with corporate cost/tax losses/pension/ ...						- 150		0.12	-0.6%	50	
TOTAL NON-QUOTED							21,526	17.09	89.8%	29,593	
GRAND TOTAL							30,496	24.21	127.2%	39,639	

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