BORDIER & CIE
RESEARCH DEPARTMENT

FRANCE TELECOM PLUS

Telecommunications / France

Daniel L. Pellet
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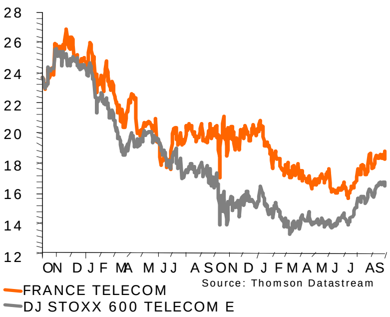
Valoren :	720128	Market cap :	EUR 49.5 bn
Reuters code :	FTE.PA	Free float :	73%
www.francetelecom.com		Closing price :	EUR 18.69



Europe's third largest integrated telecom, France Telecom (FT) provides telecommunications services to more than 182 million customers on five continents, 70% under the Orange brand. The group has three main divisions: Personal Communication Services (Mobile), Home Communication Services (Fixed lines), and Orange Business Services for enterprise customers.

France Telecom benefits from a defensive business model ideally suited to the uncertainty of the current market, which also complements our more offensive recommendations in the European Telecoms sector (Telefonica and Vodafone). FT recently confirmed its 2009 targets (organic FCF of EUR 8 bn, in particular). The group is maintaining FCF at the same level for fiscal years 2010 and 2011. Both valuation and dividend yield are attractive. PLUS rating unchanged.

During a recent roadshow France Telecom delivered a message that was reassuring in several respects. The group first confirmed its outlook for the current fiscal year, still targeting Eur 8bn for organic FCF, even if the second half is characterised by an even more difficult economic environment. Management will maintain the same level of FCF for fiscal years 2010 and 2011, nevertheless anticipating a slight increase in CapEx in 2010 which will be partially offset by the recently implemented efficiency program. The dividend should remain stable in 2009 (EUR 1.40), before increasing in coming years. A shares buyback is only anticipated in specific situations: for example to help absorb capital held by the French government which still holds 27% of FT.

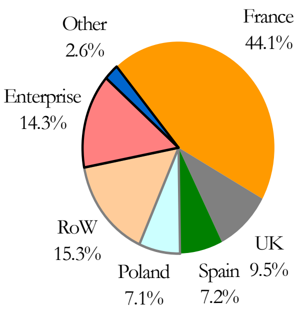
As for M&A, FT is sending a clear message of its intention to limit external growth. If the Orange 2012 plan is given priority, however a policy of M&A in emerging markets (basically Africa and the Middle East) will be maintained. The plan to merge Orange UK and T-Mobile UK (a subsidiary of the DT group) will be good for both of the French and German incumbents. This move would streamline the UK mobile market and create synergies worth more than EUR 3.5bn. The effect on earnings per share will be relutive from 2011, while the debt structure will not deteriorate.

The group will invest at a higher rate (but not more than EUR 400m per year) on fiber optics (FTTH) for its domestic market after French authorities will have clarified the regulatory framework (late 2009 or early 2010). Lastly, as concerns the future licence of a 4th mobile telephony provider on the French market, Orange does not seem to fear excessive competition in the short term.

	France Telecom (EUR)	DJ Stoxx Telecom (EUR)
Performance (EUR)		
-1M	1.2%	3.9%
-3M	16.1%	16.8%
-12M	-7.6%	-1.2%
Change in earnings per share		
2008	-35.3%	2.8%
2009e	14.1%	3.3%
2010e	3.9%	3.9%
P / E (x)		
2008	11.7	14.4
2009e	10.3	13.4
2010e	9.9	12.6
P / BV (x)		
2008	1.7	2.9
2009e	1.7	2.7
2010e	1.7	2.8
Dividend yield		
2008	7.7%	7.6%
2009e	7.7%	8.1%
2010e	7.9%	8.6%

Sources : B&Cie, Datastream IBES

Distribution of sales by area (S1 2009)



In EUR millions	2007	2008	2009e	2010e	2011e
Sales	52'959	53'488	51'630	52'730	53'150
Sales growth	2.4%	1.0%	-3.5%	2.1%	0.8%
Operating profit (EBIT)	10'799	10'272	9'875	10'050	10'105
Operating margin	20.4%	19.2%	19.1%	19.1%	19.0%
Net profit	6'300	4'069	4'905	5'105	5'190
ROE	20.4%	16.8%	16.7%	16.8%	17.2%
VE/Sales	2.1	1.9	1.7	1.7	1.7
Net debt/Equity	111%	115%	118%	104%	91%
Free Cash Flow	7'818	7'859	7'325	7'550	7'750
Dividend per share (EUR)	1.30	1.40	1.41	1.44	1.46
EPS	2.41	1.56	1.78	1.85	1.94