
Fitch Affirms SFR at 'BBB+'; Stable Outlook

Fitch Ratings-London/Paris-13 July 2010: Fitch Ratings has affirmed France-based telecoms operator Societe Francaise du Radiotelephone SA's (SFR) Long-term Issuer Default rating (IDR) at 'BBB+' with a Stable Outlook. The agency has also affirmed SFR's Short-term IDR at 'F2' and its senior unsecured rating at 'BBB+'.

The ratings reflect SFR's strong number two position in the French telecoms market, mainly due to its relatively stable and cash-generative mobile activities (83% of EBITDA). Despite continued regulatory and competitive pressure, SFR should be able to maintain its market position and competitive advantage by focusing on mobile data and triple-play services.

"Regulatory pressure continues in France with further mobile termination rate cuts and competitive pressure is likely to increase with the launch of Iliad's mobile service in 2012," says Damien Chew, a Director in Fitch's European Telecoms, Media and Technology team. "However, even with Fitch's conservative forecasts, SFR's financial position and leverage metrics are still well within a BBB+ profile."

Iliad, which has a 23% market share of French broadband connections (a similar share to SFR's), is expected to launch its mobile service as the fourth operator in France during early 2012. The company's mobile offering would allow Iliad to compete more effectively in the French telecoms market which Fitch expects to become more focused on converged fixed and mobile services. Iliad is likely to target lower ARPU customers with cheaper voice calls but may struggle due to limited capacity and coverage to offer an attractive mobile data service which is the likely choice offering for more valuable contract customers. This might result in some margin pressure for SFR's mobile operations, but Fitch does not anticipate a significant loss of mobile revenue due to Iliad's market entry.

Despite good underlying cash flow generation, scope for SFR to reduce net debt over the next two years is likely to be limited. This is because a return to a dividend policy of paying out all of SFR's net income to shareholders means that dividends paid should increase from the levels seen in the past two years. In addition, cash tax payments in 2010 should return to a more normal level after a low level of payment in 2009 while SFR is likely to take part in the 2.6GHz spectrum auctions in France, which could see a cash outflow in 2011 that Fitch conservatively estimates could reach EUR500m.

SFR still has low leverage compared to its peers. Negative rating action may result if funds from operations-adjusted net leverage increases to 3x from the 2009 level of 1.9x without a clear de-leveraging path back to the 2.5x level. SFR's credit profile would also come under pressure from a significant increase in competitive pressure, either from Iliad or other players in the French market or due to an adverse change in regulation.

Applicable criteria, 'Corporate Rating Methodology', dated 27 November, 2009, are available at www.fitchratings.com.

Contacts: Damien Chew, London, Tel: +44 (0) 20 7682 7603, Richard Petit +44 (0) 20 7682 7503.

Media Relations: Françoise Alos, Paris, Tel: +33 1 44 29 91 22, Email: francoise.alos@fitchratings.com; Peter Fitzpatrick, London, Tel: + 44 (0)20 7417 4364, Email: peter.fitzpatrick@fitchratings.com.

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