

Upgrading Altice Lux, downgrading Altice France

Since our previous assessment we think several factors support a change of view on Altice Lux. bonds. In particular the significant rally in global rates, better revenue and EBITDA trends in France, the associated guidance upgrade and initial signs of improved cash flow in France (a previously long-held concern). While ATCNA has performed strongly YTD we see further room for outperformance and view €/€27s (Underweight to Overweight) as offering attractive spread vs. Altice France. For Altice France (Overweight to Marketweight) we think valuations are more balanced given the YTD rally, the scope for additional debt push-down and contributions to Pay-TV/Altice Lux. (see page 2 for more details including our upgrade of the ATCNA €/€22s and €/€25s).

France 2Q cash flow shows some improvement

We have held long-run concerns about Altice's free cash flow conversion. While still too nascent to call a trend we note Altice France's performance improved in 2Q with a €205mn/€127mn y/y increase in OCF and FCF. The difference between 1H EBITDA and cash flow derived OCF was the lowest it has been over the last two years. We await the release of the rest of the financial statements to assess group performance.

Disposals less likely but still potential positive catalysts

On the 2Q19 conference call management indicated that the Portugal fibre co. process remained on-going and any offers for TEADS would be assessed. Nevertheless it was acknowledged that given better momentum in the business there was less pressure to pursue disposals. Even if the likelihood has diminished, we think such disposals remain potential positive catalysts for creditors, particularly given a strengthened position from which to hold-out for higher valuations.

Global rates rally...

The strong rally in global rates is particularly meaningful for the Altice structure given our view that one of its previous fundamental problems has been one of over-leverage and re-financing risks. The cost to roll-over front-end debt across the structure now appears broadly cheaper than existing coupons, in sharp contrast to 9 months previously. For example the ATCNA \$25 yield has halved from highs of 14% to nearly 7%. We think this meaningfully changes the picture for the sustainability of the structure and buys much needed time to de-leverage.

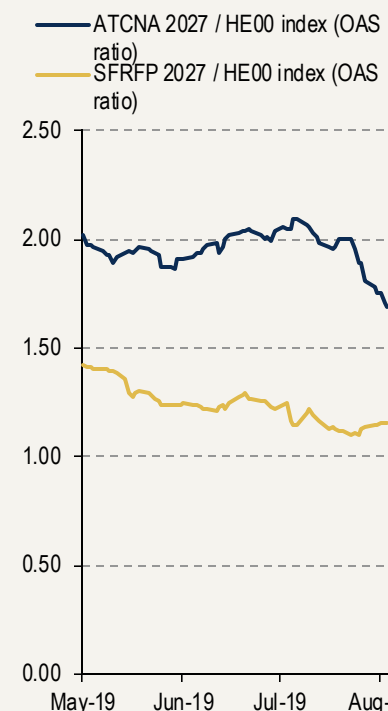
... Altice Int and ACF likely next in line

A re-financing of front-end of the Altice International debt is likely next on the agenda. In particular the unsecured 9.0% €23s and 8.125% \$24s but also the secured €/€23s. Previously we thought that such a re-financing would be reliant on tangible progress with respect to [asset sales processes](#). However given better momentum across the group and the broader interest rate back-drop this is likely no longer necessary. We flag the Altice Corporate Financing facility as likely high on the agenda as well. Altice US stock has been on a prodigious rally this year (>60%) and Altice's 3.74% stake (c. €660mn) could facilitate a transaction.

High Yield Credit
Luxembourg
Cable

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Chart 1: ATCNA/SFR bond performance



Source: ICE Data Indices, LLC, ICE BofAML HE00 index, Bloomberg, BofA Merrill Lynch Global Research.

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Refer to important disclosures on page 11 to 15. Analyst Certification on page 10. Valuation & Risk on page 9.

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Recommendations and relative value

Upgrading Altice Lux. bonds

We upgrade the ATCNA €//\$'22s and €//\$'25s to Marketweight from Underweight and upgrade the ATCNA €//\$'27s to Overweight from Underweight. This reflects several factors including: i) [supportive credit market back-drop](#), ii) significant rally in global rates (see chart 13), iii) improved [revenue and EBITDA trends in France](#), iv) initial signs of improved cash flow in France (see next section) and v) still attractive relative value vs. peers and Altice France bonds. Given tighter levels we think upside in the '22s/25s is more limited than the '27s.

Downgrading Altice France bonds/5y CDS to MW/Neutral

Altice France operating performance has been a key factor underpinning our upgrade of Altice Lux. However we take a more cautious view on the Altice France bonds given i) strong YTD performance (SFRFP €/27s are up 11pts YTD) and ii) the risk of re-leveraging the Altice France entity either via debt push-downs or cash leakage to fund Altice Lux., the Pay-TV unit or support other re-financing measures across the group. As such, we downgrade the Altice France bonds under coverage from Overweight to Marketweight and the 5y CDS from Sell Protection to Neutral.

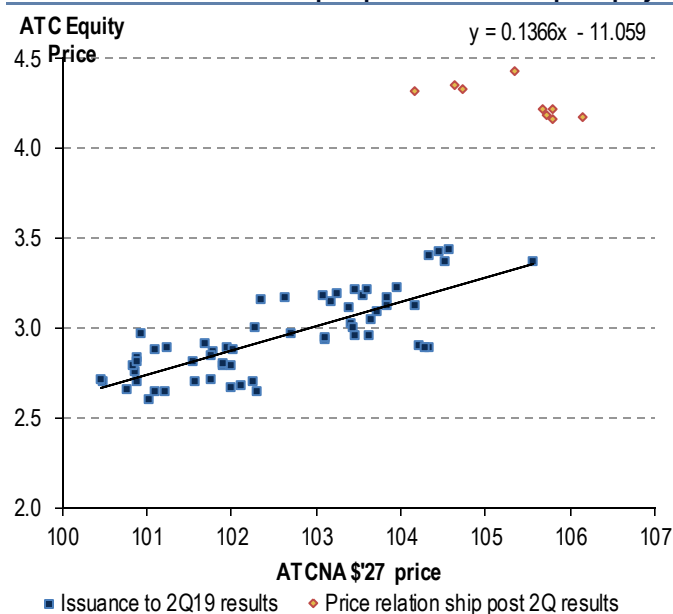
Relative value in ATCNA 27s - still attractive

In spite of strong absolute return since issuance (+5pts) we still think there is scope for both absolute and relative tightening vs. peers. This reflects our expectation of aforementioned fundamental factors (France operating trends, potential disposals) and i) supportive back-drop as per our [credit strategy team](#), ii) still wide levels vs. equity, vs. peers and vs. Altice France.

Equity has performed strongly vs. the ATCNA 27s

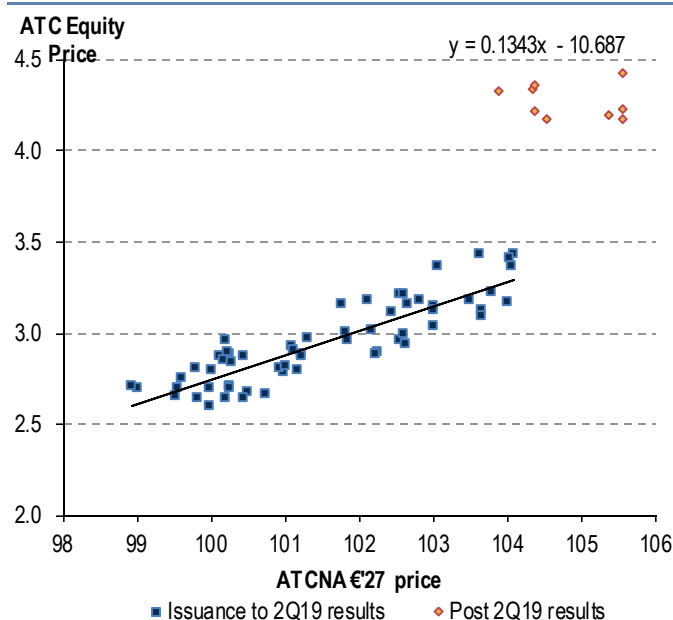
The charts below demonstrate the much stronger performance of equity vs. the structurally subordinated hold co. ATNCA '27s. We think the ATCNA bonds have equity-like characteristics given their level of subordination in the structure, very high leverage and relatively long duration. Equity has strongly outperformed credit since the 2Q19 results. If the previous relationship held, the current equity price would imply bonds prices 5-6pts higher for the €//\$'27s. While we acknowledge this is too simplistic a model, we nevertheless believe it is illustrative of further upside potential.

Chart 2: ATCNA \$'27s trade cheap vs. previous relationship to equity...



Source: Bloomberg, BofA Merrill Lynch Global Research.

Chart 3: ... this is the same in the €'27s

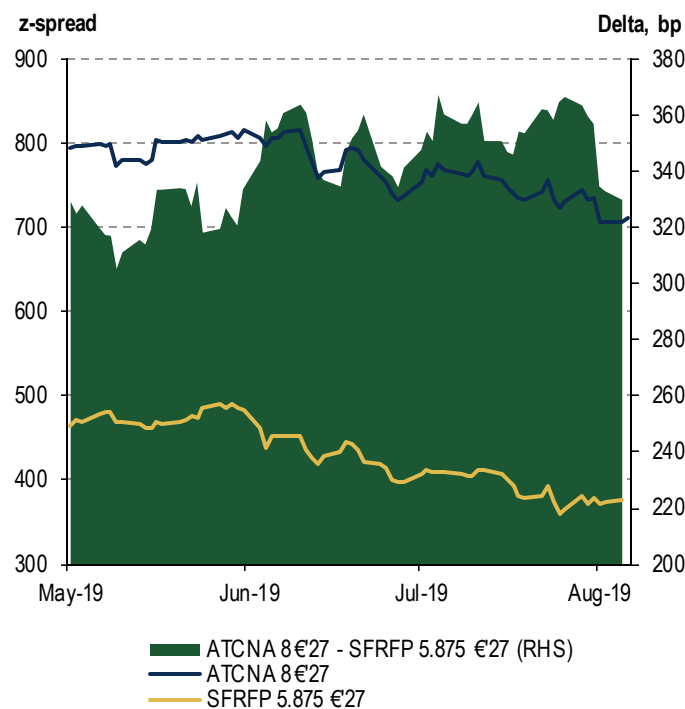


Source: Bloomberg, BofA Merrill Lynch Global Research.

Bond continue to offer attractive pick-up vs. SFR

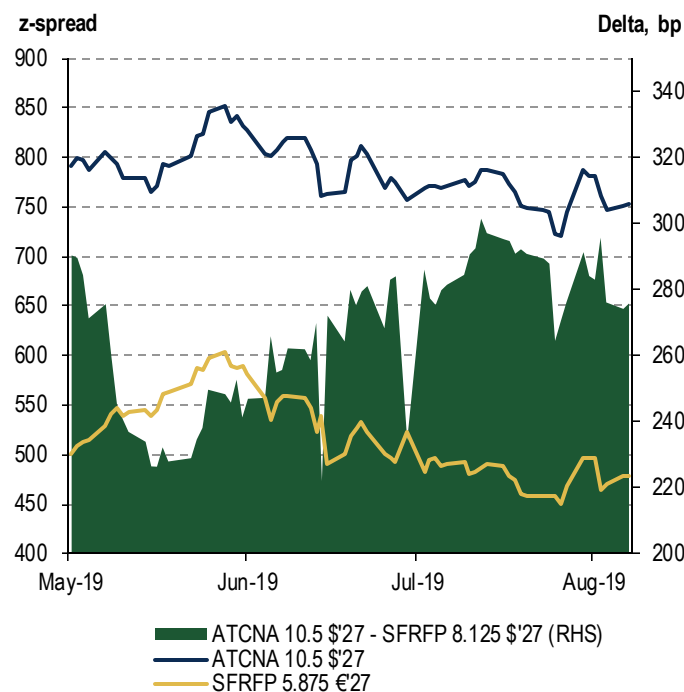
In spite of broader strong performance in rates/credit the ATCNA '27s still offer an attractive pick-up vs. their op. co equivalents in Altice France (SFR). As the charts below illustrate the z-spread pick-up is roughly the same as when the bonds were issued.

Chart 4: ATCNA €'27s still offer attractive pick-up vs. SFR



Source: Bloomberg, BofA Merrill Lynch Global Research.

Chart 5: ATCNA \$'27s still offer attractive pick-up vs. SFR



Source: Bloomberg, BofA Merrill Lynch Global Research.

Shrinking HY TMT universe a supportive technical?

Beyond the broader "reach for yield" technicals in the European credit market, we think there could also be a more localised technical benefit from shrinking euro HY TMT bond

universe. In recent weeks a make-whole was announced for €5.6bn Wind Tre bonds and Vodafone finally completed its acquisition of Unitymedia (€3.6bn bonds to IG). In addition UPC (€1.7bn) and Refinitiv (€1.2bn) are currently the subject of take-overs which could lead to IG ratings/re-financings. Finally Equinix (€2.75bn) received a second upgrade to IG in July. Thus in total €14.25bn of HY TMT bonds could be disappearing (including FRNs). By comparison the ICE BofAML Euro High Yield Technology, Telecommunications & Media Index (HEMT) has total face value of €63bn.

We acknowledge the majority of benchmarked HY investors will be judging performance compared to the broader index (HE00 or other capped variants) and thus there will not be an automatic recycling of money into HEMT. Nevertheless for investors seeking TMT exposure, which, while highly leveraged, offers a safe haven vs. cyclical trade war exposed credits, there will be a smaller universe and thus theoretically more supportive technicals for existing bonds.

Cash flow analysis

Altice France – SFR business

Altice France registered a large WC outflow of €390mn in 1Q19 but this moderated in 2Q, if not reversed, to -€94mn. Management has previously guided this will reverse as the year progresses. Adj. EBITDA as per Altice France's stand alone accounts, increased +13% y/y and in contrast to 1Q, OCF followed suit increasing 37% or more than €200mn. FCF also improved y/y and was positive in 2Q in a seasonally lower quarter for cash interest.

The y/y comparison was flattered by working capital, just as it was hindered in 1Q. Working capital provided a €221mn boost y/y. Excluding the move in working capital FFO declined slightly (2% y/y), reflecting the reversal of a large outflow in 2Q18.

The Adj. EBITDA derived FCF was €72mn higher than that from the cash flow statement. While still a relevant number we highlight that it is much less than the average of previous quarters.

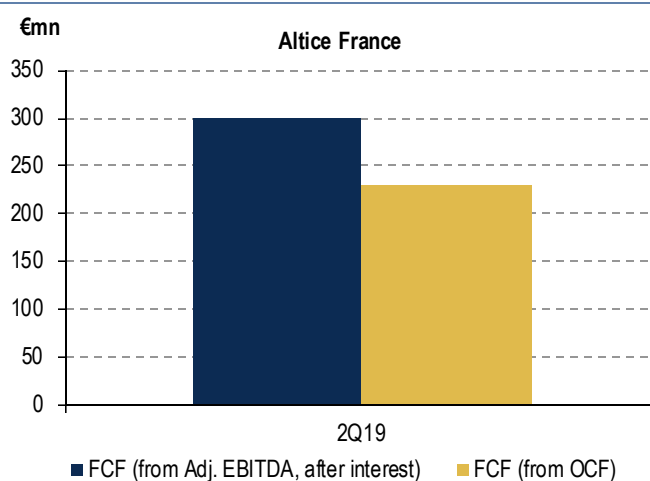
We note that after the end of the quarter the RCF was drawn for €125mn to upstream cash to Altice Lux., we assume for cash interest payments.

Table 1: Altice France summary 2Q19 cash flow

€ mn	2Q19	2Q18	Delta
Adj. EBITDA	1,072	946	+126
Change y/y, %	13.3%		
Cash flow statement			
Operating cash flow (reported)	1,072	621	+451
Lease payments	-221	-25	-
OCF post lease	851	596	+255
Change y/y, %	43%		
Cash interest	-94	-44	-50
OCF post cash interest	757	552	+205
Change y/y, %	37%		
Net capex (inc. WC)	-529	-451	-78
FCF	228	101	+127
Change y/y, %	125%		
Change in Working Capital	-57	-278	+221
Funds from operations	814	830	-16
Change y/y, %	-2%		

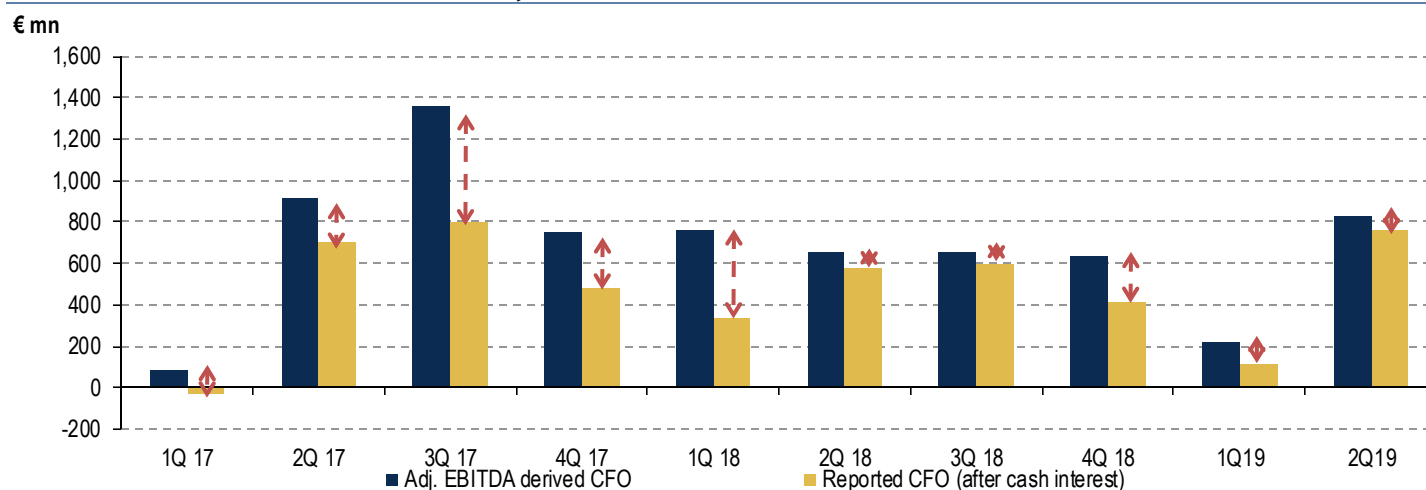
Source: Company accounts, BofA Merrill Lynch Global Research.

Chart 6: Altice Int. cash flow statement vs. EBITDA based FCF



Source: Company accounts, BofA Merrill Lynch Global Research.

Chart 7: Altice France historic differences between Adj. EBITDA and cash flow statement based FCF



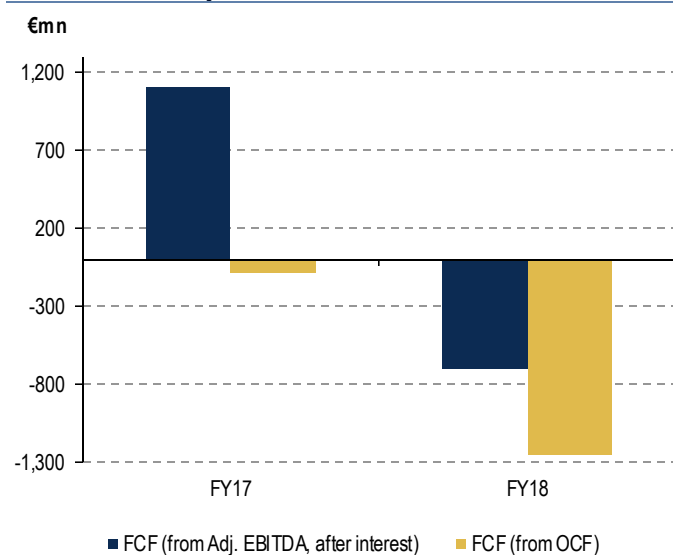
Source: Company accounts, BofA Merrill Lynch Global Research.

Historic cash flow conversion

As we highlighted in our credit note in January 2019, sustainable delivery of FCF remains key for Altice. In our view, the old adage “cash is king” should be at the forefront of investors’ minds in the case of Altice for 2019.

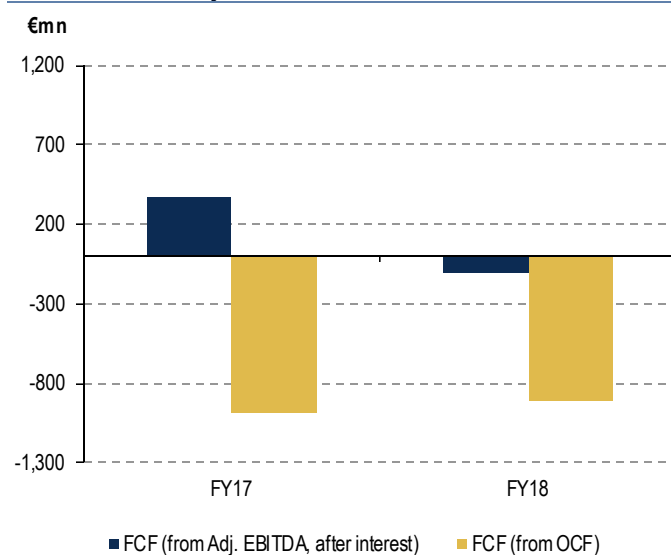
FCF conversion, even during impressive EBITDA growth, has been elusive in the past. In France and Altice International, FCF below the EBITDA line has been impacted by substantial restructuring costs, one-off items, capitalised content costs, spectrum payments and working capital outflows (partly driven by content costs again). Furthermore, the entire picture has been muddled by continual changes in the perimeter.

Chart 8: Altice NV Adj. EBITDA vs. cash flow statement OCF



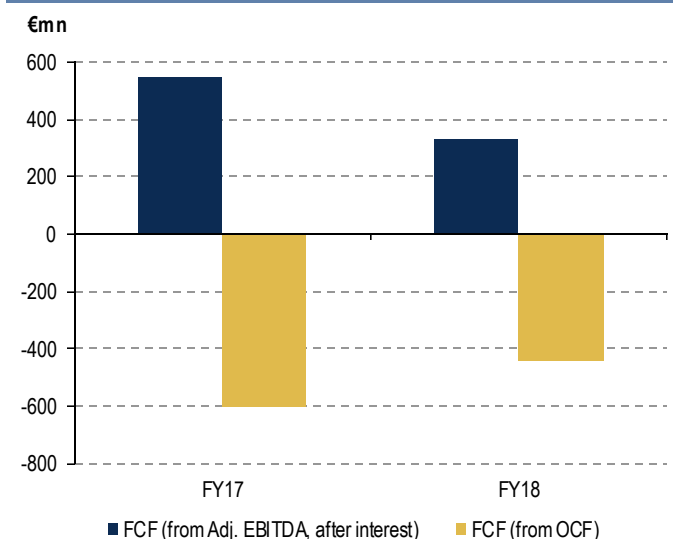
Source: Company accounts, BofA Merrill Lynch Global Research.

Chart 9: Altice Lux Adj. EBITDA vs. cash flow statement OCF



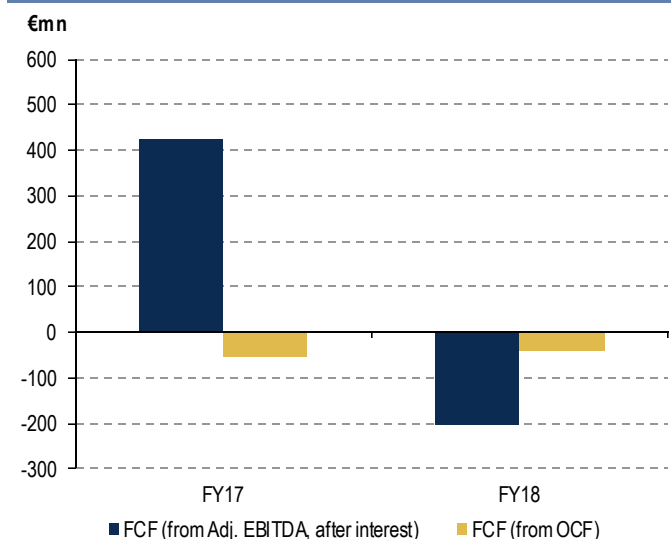
Source: Company accounts, BofA Merrill Lynch Global Research.

Chart 10: Altice France Adj. EBITDA vs. cash flow statement OCF



Source: Company accounts, BofA Merrill Lynch Global Research.

Chart 11: Altice International Adj. EBITDA vs. cash flow statement OCF

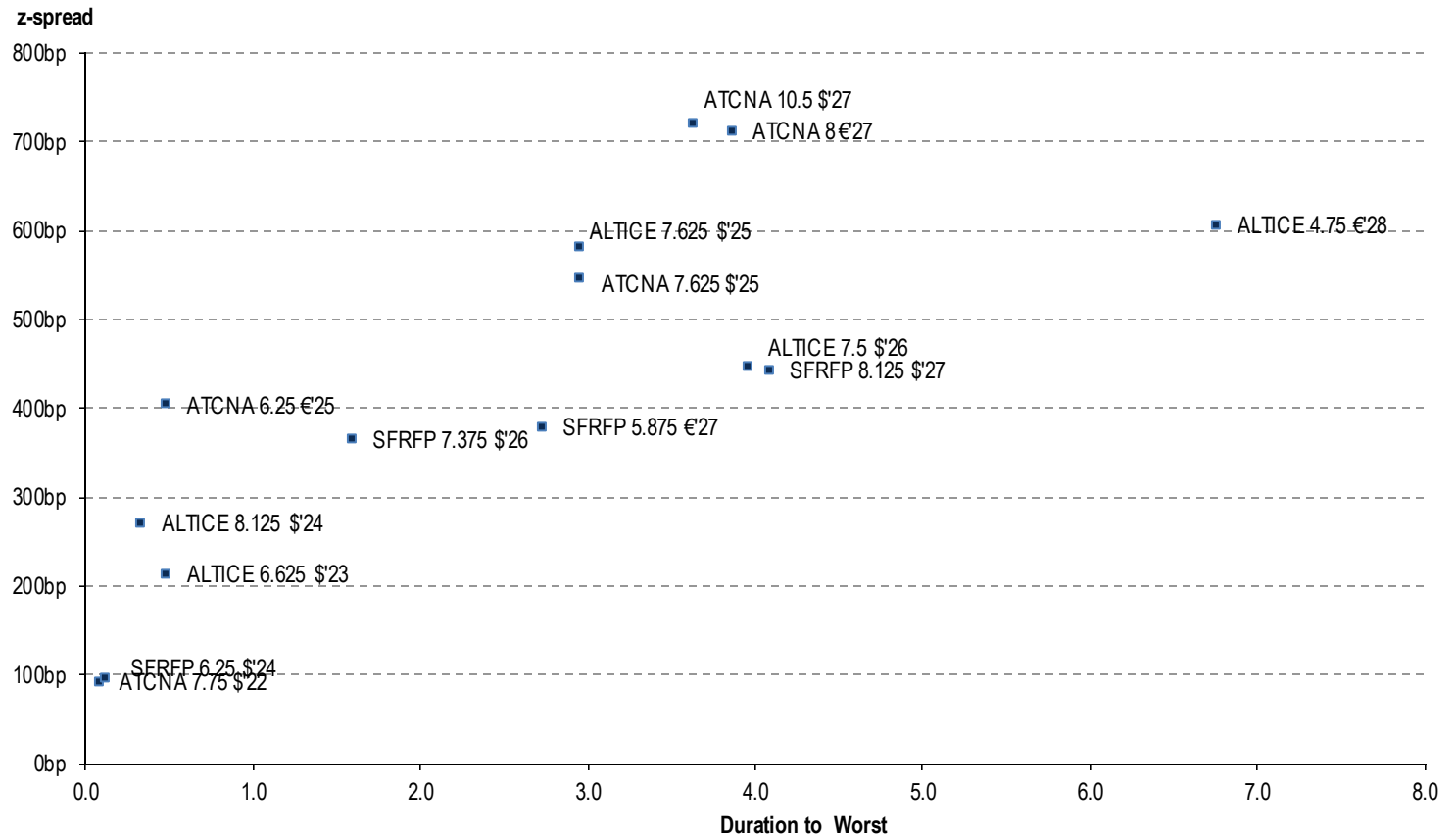


Source: Company accounts, BofA Merrill Lynch Global Research.

Chart 12: HY TMT euro cash scatter

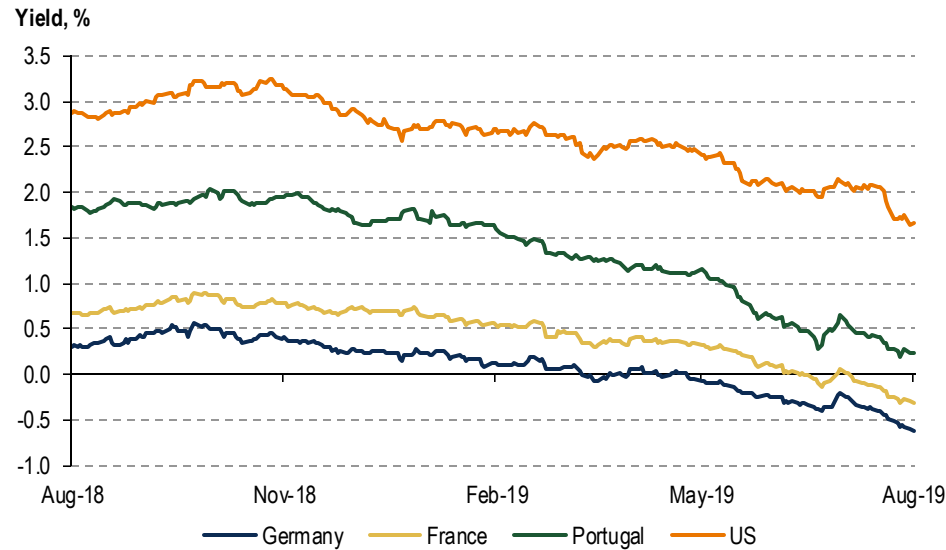


Chart 13: Altice group cross-currency cash scatter



Source: Bloomberg, BofA Merrill Lynch Global Research. Note: Spreads swapped into euros.

Chart 14: Government 10y yields



Source: Bloomberg, BofA Merrill Lynch Global Research.

Valuation & risk

Altice Europe (ATCNA)

Altice bonds are heavily structurally subordinated and highly levered. We have a MW on the 22s and 25s and an Overweight on the 27s. From a relative value perspective we view the 22s/25s as fairly valued vs. peers. We see further upside in the 27s upon the execution of de-leveraging measures such as improved French trends and disposals.

Risks to the upside: i) Outperformance of earnings on the back of greater than expected cost savings, ii) further asset sale execution, iii) asset sale proceeds applied to Altice Lux debt, iv) top-line improvement in France/Portugal, v) early refinancing of the bonds and vi) consolidation in France.

Risks to the downside: i) Failure to execute on turnaround strategy leading to further earnings pressure, ii) unfavourable FX moves, iii) EM/periphery volatility, iv) continued top-line pressure in France and Portugal, v) the removal of consolidation as a backstop to valuations, vi) weakening HY market conditions and vii) a failure to deliver sustainable FCF.

Altice Finco (ALTICE)

Altice International faces a challenging operating environment in all three of its key markets. Asset sales could help minimize downside risks, but execution remains uncertain for now. From a valuation standpoint we see scope for further widening if operating trends continue to worsen. Accordingly we have a cautious view on the majority of the Altice International curve. We view the 9% 23s and 8.125% \$'24s as more fairly valued in view of tighter covenant protection.

Risks to the downside: i) unfavourable FX movements which could impact translated earnings from the Dominican Republic and Israel, ii) the failure to deliver on projected turn-around strategy iii) a further and marked deterioration in the performance in Portugal, iii) a failure to monetise fixed assets in Israel/DR/Portugal, and iv) greater competitive intensity in the DR and Israel.

Risks to the upside: i) favourable FX movements, ii) execution of non-core asset sales e.g. fibre sale, iii) greater than expected margin improvement, and iv) a change in financial policy by the parent resulting in material and sustainable deleveraging.

Altice Financing (ALTICE)

Altice International faces a challenging operating environment in all three of its key markets. Asset sales could help minimize downside risks, but execution remains uncertain for now. From a valuation standpoint we see scope for further widening if operating trends continue to worsen. The bonds trade wide to most HY peers but we see this as justified given aforementioned issues. We see scope for the Altice 28s to trade materially lower if results and disposals disappoint.

Risks to the downside: i) unfavourable FX movements which could impact translated earnings from the Dominican Republic and Israel, ii) the failure to deliver on projected turn-around strategy iii) a further and marked deterioration in the performance in Portugal, iii) a failure to monetise fixed assets in Israel/DR/Portugal, and iv) greater competitive intensity in the DR and Israel.

Risks to the upside: i) favourable FX movements, ii) execution of non-core asset sales e.g. fibre sale, iii) greater than expected margin improvement, and iv) a change in financial policy by the parent resulting in material and sustainable deleveraging.

Altice France (SFRFP)

We expect performance to improve following a stabilization of operating trends. However following strong performance YTD we view the bonds under our coverage as trading near fair value vs. peers.

Risks to the upside: i) further cost saving measures, ii) a recovery in the top-line trends supported by market pricing recovery, iii) a change to a more conservative financial policy resulting in lower cash up-streams than we anticipate.

Risks to the downside: i) a material increase in competition in French mobile/broadband markets, ii) a more aggressive approach to op. co. leverage including the use of subordinated leverage headroom, iii) further dividend payments, iv) a push-down of ATCNA debt and vi) the removal of consolidation as a potential catalyst in the French market.

Analyst Certification

I, Nick Macdonald, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security pricing

Altice Europe / ATCNA

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Next call Call date	Call price	Price	Price date	YTW* (%)	STW (Govt+bps)
7.75, Secured, USD, 2022:B	636	15-MAY-2022	Caa1/B-/NR	11-Sep-2019	101.94	102.00	12-Aug-2019	5.03	318
7.25, Secured, EUR, 2022:B	445	15-MAY-2022	Caa1/B-/NR	11-Sep-2019	101.81	102.23	12-Aug-2019	1.99	273
6.25, Senior Unsecured, EUR, 2025:B	750	15-FEB-2025	Caa1/B-/NR	15-Feb-2020	103.13	104.24	12-Aug-2019	3.87	462
7.625, Senior Unsecured, USD, 2025:B	1,480	15-FEB-2025	Caa1/B-/NR	15-Feb-2020	103.81	101.00	12-Aug-2019	7.30	580
8, Senior, EUR, 2027:B	1,400	15-MAY-2027	Caa1/B-/NR	15-May-2022	104.00	105.26	12-Aug-2019	6.69	756
10.5%, Senior, USD, 2027:B		15-MAY-2027	Caa1/B-/NR	15-May-2022	105.25	102.10	13-Aug-2019	9.91	746

For pricing information refer to "Other Important Disclosures" below.

* For loans, YTW reflects yield to maturity.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Altice Financing / ALTICE

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Next call Call date	Call price	Price	Price date	YTW* (%)	STW (Govt+bps)
6.625, Secured, USD, 2023:B	2,060	15-FEB-2023	B2/B+/NR	11-Sep-2019	103.31	102.50	12-Aug-2019	4.83	291
5.25, Secured, EUR, 2023:B	500	15-FEB-2023	B2/B+/NR	11-Sep-2019	102.63	102.83	12-Aug-2019	2.19	294
7.5, Secured, USD, 2026:B	2,750	15-MAY-2026	B2/B+/NR	15-May-2021	103.75	105.15	12-Aug-2019	6.23	472

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Altice Finco S.A. / ALTICE

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Next call Call date	Call price	Price	Price date	YTW* (%)	STW (Govt+bps)
9, Senior, EUR, 2023:B	250	15-JUN-2023	Caa1/CCC+/NR	11-Sep-2019	103.00	103.63	12-Aug-2019	1.19	193
8.125, Secured, USD, 2024:B	400	15-JAN-2024	Caa1/CCC+/NR	11-Sep-2019	104.06	103.00	12-Aug-2019	6.72	517
Senior Unsecured, EUR, Y5:CDS							13-Aug-2019		319
7.625, Senior Unsecured, USD, 2025:B	385	15-FEB-2025	Caa1/CCC+/NR	15-Feb-2020	103.81	99.50	12-Aug-2019	7.74	621
4.75, Senior Unsecured, EUR 2028	675	15-JAN-2028	Caa1/CCC+/NR	15-Oct-2022	102.38	92.80	12-Aug-2019	5.84	653

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Altice France / SFRFP

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Next call Call date	Call price	Price	Price date	YTW* (%)	STW (Govt+bps)
5.625, Secured, EUR, 2024:B	750	15-MAY-2024	B2/B/NR	11-Sep-2019	102.81	103.04	12-Aug-2019	2.75	349
6.25, Secured, USD, 2024:B	815	15-MAY-2024	B2/B/NR	23-Sep-2019	103.13	103.13	12-Aug-2019	4.74	288
7.375, Senior, USD, 2026:B	5,190	01-MAY-2026	B2/B/NR	01-May-2021	103.69	105.88	12-Aug-2019	5.81	418
5.875, Secured, EUR, 2027	1,000	01-FEB-2027	B2/B/NR	01-Feb-2022	104.41	109.63	12-Aug-2019	3.39	430
8.125%, Secured, EUR, 2027		01-FEB-2027	B2/B/NR	01-Feb-2022	106.09	102.13	13-Aug-2019	7.62	546
Senior Unsecured, EUR, Y5:CDS							13-Aug-2019		282

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Disclosures

Important Disclosures

Credit opinion history

Altice Europe / ATCNA

Security	Date^	Action	Recommendation	Price
7.75, Secured, USD, 2022:B	31-Jul-2018		Marketw eight	
	23-May-2019	Dow ngrade	Underw eight	101.50
7.25, Secured, EUR, 2022:B	31-Jul-2018		Marketw eight	
	23-May-2019	Dow ngrade	Underw eight	101.86
6.25, Senior Unsecured, EUR, 2025:B	31-Jul-2018		Marketw eight	
	23-May-2019	Dow ngrade	Underw eight	97.50
7.625, Senior Unsecured, USD, 2025:B	31-Jul-2018		Marketw eight	
	23-May-2019	Dow ngrade	Underw eight	93.88
8, Senior, EUR, 2027:B	23-May-2019	Initial	Underw eight	101.08
10.5%, Senior, USD, 2027:B	23-May-2019	Initial	Underw eight	102.10

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."

Pricing information in the table is provided for each action occurring after July 2, 2016, where available. In the case of bonds, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

Altice Financing / ALTICE

Security	Date^	Action	Recommendation	Price
6.625, Secured, USD, 2023:B	31-Jul-2018		Underw eight	
5.25, Secured, EUR, 2023:B	31-Jul-2018		Underw eight	
7.5, Secured, USD, 2026:B	31-Jul-2018		Underw eight	

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Altice Finco S.A. / ALTICE

Security	Date^	Action	Recommendation	Price
9, Senior, EUR, 2023:B	31-Jul-2018		Marketw eight	
8.125, Secured, USD, 2024:B	31-Jul-2018		Marketw eight	
Senior Unsecured, EUR, Y5:CDS	31-Jul-2018		Neutral	
7.625, Senior Unsecured, USD, 2025:B	31-Jul-2018		Underw eight	
4.75, Senior Unsecured, EUR 2028	31-Jul-2018		Underw eight	

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."

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Altice France / SFRFP

Security	Date^	Action	Recommendation	Price
5.625, Secured, EUR, 2024:B	31-Jul-2018		Overweight	
	11-Oct-2018	Dow ngrade	Marketw eight	104.48
	09-Jan-2019	Up grade	Overweight	100.50
6.25, Secured, USD, 2024:B	31-Jul-2018		Overweight	
7.375, Senior, USD, 2026:B	31-Jul-2018		Overweight	
5.875, Secured, EUR, 2027	31-Jul-2018		Overweight	
8.125%, Secured, EUR, 2027	31-Jul-2018		Overweight	
Senior Unsecured, EUR, Y5:CDS	31-Jul-2018		Sell Protection	

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."

Pricing information in the table is provided for each action occurring after July 2, 2016, where available. In the case of bonds, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

BofA Merrill Lynch Credit Opinion Key

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Buy Protection: Buy CDS, therefore going short credit risk.

Neutral: No purchase or sale of CDS is recommended.

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	147	34.27%	Buy	119	80.95%
Hold	205	47.79%	Hold	168	81.95%
Sell	77	17.95%	Sell	60	77.92%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only corporate credit issuer recommendations. A corporate credit issuer rated Overweight is included as a Buy, a corporate credit issuer rated Marketweight is included as a Hold, and a corporate credit issuer rated Underweight is included as a Sell.

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