ORANGE PL

Reuters: OPL.WA Bloomberg: OPL PW

CEE Equity Research

Telecommunication, Poland

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Eventful Autumn?

Recommendation Underperform, TP upped to PLN5.7

In theory, strong 2Q2022 EBITDAaL reading (+5.6% y/y) should come in supportive to company's outlook. However, adjustment for one-off would trim EBITDAaL growth to 1.6% only (own calculations), still achieved at probably 2022-lowest energy price burden. Lack of change at official FY22 EBITDAaL guidance may imply flattish 3/4Q2022E readings, likely weakened by macro / consumption slowdown, much higher energy costs and lack of one-offs. Additionally, CFO guides for 'substantial' 2H2022 capex growth, trimming room for positive FCF surprises in coming quarters. Iliad kicked off its convergent bundle this May, and we believe this autumn represents an ideal timing for more bundles and more marketing campaign from new entrant, potentially detrimental to Polish ARPU growth and Orange Pl's customer bases. Cyfrowy Polsat reinforced its content with Disney+, sales of UPC infrastructure should also mark more pressure on OPL, via new entity's heavy fiber investments and wider access of all Polish operators to UPC network. OPL's newborn idea to link services' prices to inflation might prove worthwhile only if all operators apply such clauses, and it could come in results-supportive in 2H23E at the earliest, we believe. With OPL's dividend already paid, we find few arguments supportive of company's short-term attractiveness (except ratio inexpensiveness), and this autumn might come in very eventful (Iliad), hence we keep OPL as Underperform.

Short-term Uncertainties. OPL's 2Q22 EBITDAaL come in 5.6% higher y/y, yet it was fueled by heavy positive one-off and seasonally low energy costs' growth. Management guides for FY22 EBITDAaL growing by low-single digit y/y, which, in light of 1H22's 3.8% growth y/y, suggests flattish 2H22E EBITDAaL (weakening macro, lack of one-offs, spike at energy costs). Official suggestion of significantly higher 2H2022 capex should turn 2H22E FCF weak. Dividend has been already paid, and autumn could represent an ideal timing for Iliad's potential broadening of its mobile/fixed offer (new bundles, new prices). Overall, we fail to see strong investment argument supportive of Orange Pl share price for next several months.

Ongoing Polish telco market evolution. In May 2022 Iliad kicked off its Polish convergent mobile+fixed offer, naturally competitive to OPL customer base. In the recent months, Iliad has sold its FTTH infrastructure, which lets other competitors to enter Orange Pl's turf as well, and Cyfrowy Polsat added Disney+ (exclusive agreement) to its content offer. This May Orange Pl initiated pilot project of low-priced fiber access (not very much of More-for-More strategy, we conclude), and in June it introduced inflation-indexing clauses to its new contracts. The latter could become a game-changer only if all operators adopted it, potentially affecting OPL figures no sooner than in 2H2023E, we believe.

Risks to recommendation. Iliad's new aggressive convergent offer represents the key risk factor to the Polish incumbent. OPL's recent low-priced fiber offer pilot could pose risk, while inflation-indexing could pose upside, just as low price paid for 5G spectrum. The disposal of FTTH / mobile infrastructure, or sale of access to OPL network (fiber to Iliad, hypothetically, mobile to MVNOs) could offer upsides to OPL valuation, we believe. Finally, 2023 DPS above PLN0.25 would come in supportive, we believe.

Forecasts, valuation, recommendation. We apply minor changes to our forecasts, adjusting top line for solid equipment and energy trading, adding PLN0.2bn real estate gain to FCF, and upping capex/sales ratio for weaker zloty. Iliad's competitive bundled offer announced for this autumn (weakening OPL's convergent ARPOs and customer base growth) represents our core scenario. Due to pending 5G auction, Iliad's potential inroad(s) and weakening macro, we also keep OPL's DPS at flat PLN0.25. With this report we change TP horizon to Dec2023 from Dec2022, which adds single pp to our DCF / DDM valuations, but 4% cut at comparable valuation trims blended TP at PLN5.7. We maintain the stock as Underperform.

Orange Polska: Financial summary (year to December)

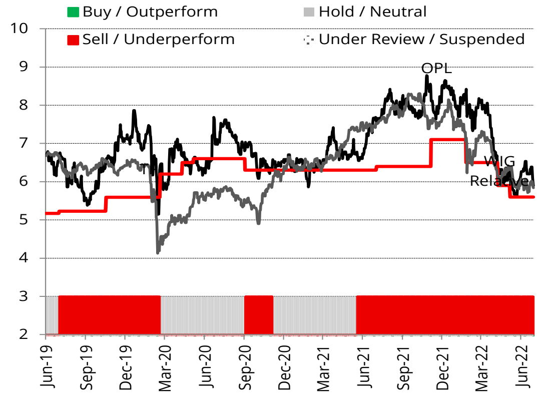
PLNmn	2019	2020	2021	2022E	2023E	2024E
Sales	11,407	11,508	11,928	12,127	12,154	12,257
EBITDAaL	2,735	2,797	2,963	2,979	2,874	3,010
EBIT	414	404	2,211	1,140	1,039	1,318
Net profit	89	46	1,672	696	626	781
P/E (x)	86.3	192.3	5.7	11.0	12.2	9.8
EV/EBITDA (x)	5.0	5.2	4.6	3.8	4.3	4.0
DY	0.0%	0.0%	0.0%	4.3%	4.3%	4.3%

Source: Company data, Santander Brokerage Poland estimates

Recommendation	**Underperform**
Target Price [PLN, Dec 2023]	**5.7**
Price (PLN, 28 July, 2022)	5.83
Market cap. (PLNmn)	7,651
Free float (%)	49.3
Number of shares (mn)	1,312

What Has Changed

- TP up 2% to PLN5.7 from PLN5.6, recommendation Underperform maintained
- All inflationary risks and valuation downsides remain in force, and upside stemming from assets' disposal seems gone for years, we believe
- 2Q22 EBITDAaL was strong due to one-off and low energy pricing, which should not be the case in 2H2022E, and official guidance suggests flattish 2H2022E (macro / consumption slowdown, energy prices, lack of one-offs)...
- ...while substantially higher 2H22 capex should substantially depress 2H2022 FCF, especially as we believe macro and RFR level might weaken demand for real estate (yielding PLN0.2bn cash inflow in 1H22)
- Iliad wants to keep Polish telco services' prices 'available-to-everyone' (low?), and we believe this autumn represents ideal timing for its offer expansion, key downside risk to Orange Pl
- Negligible changes at forecasts, DCF and DDM upped as our TP horizon changes to Dec23 from Dec 22 previously
- ARPO growth catching up with inflation, Iliad's inactivity, new buyers of OPL infra (fiber/mobile) access and low 5G price represent key upsides to OPL's forecasts and valuation



The chart measures performance against the WIG index

Main shareholders	**% of votes**
Orange France	50.7

Source: stooq.pl

Company description

Polish telco incumbent with the dominant position in fixed-line services, and one of four key mobile operators. In recent years Orange Pl has been heavily investing in the fiber network.

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Key Stories

Inflation-indexation, new clause in OPL agreements with customers

Published at Santander's Daily on July 29, 2022

Today's Parkiet daily quotes CEO as saying that Orange Pl introduces inflation-indexed contracts for its new customers and those renewing 24-year contracts. No detailed scale or details were presented. CFO adds that these clauses are not obligatory, and operator might choose not to increase its prices. Company's spokesman said that operator would be entitled to increase price of its services, if past year's inflation exceeds 3.5%. Hence, such clause could be used for the first time in 2023, when Main Statistical Office announces 2022 inflation rate. However, clients have to be informed 30 days in advance, and every client will have the right to give up on Orange Pl's service(s) without any penalties.

Comment: Hypothetically positive. We believe inflation-indexed agreements could represent very interesting options for operators, protecting these from high inflation in future. However, as only fraction of Orange Pl's customer base will renew their contracts by early 2023, we believe it will not protect Orange Pl from negative impact of high 2022 / 2023E inflation rate. Additionally, it would only work if all Polish operators decide to apply this clause – if Orange Pl would be the only one to do this, clients would realize their bill is 12-15% more expensive at OPL compared to other providers, which would pose high risk to customer base. Hence, if Orange Pl is the only one operator introducing such indexation, we would be very sure that OPL would decide not to take advantage of inflation-indexation, in attempt to protect its most precious asset, client base.

Earliest 2H2022E outlook: Flattish EBITDAaL, weak FCF, no intention to increase DPS?

Published as a Flash Note on July 28, 2022

Below we list key takeaways from today's conference call with Orange Pl management:

- **Strong top line trajectory**. Orange Pl remains on better revenue trajectory than originally anticipated by the management thanks to strong consumption. Excluding negative impact of MTR/FTR cuts, revenues would come in 7% higher y/y;
- **One-off at other operating line**. Other operating income/expense – accumulation of positive events in 2Q22, utilizing dismantled copper, 2Q22 level (PLN34mn) is not sustainable, acc. to the management;
- **Energy costs**. Negative impact of energy costs was lighter in 2Q22 (up PLN35mn y/y) vs 1Q22 (up PLN67mn y/y). Energy costs are to increase in 3Q22 y/y, more than PLN35mn y/y growth observed in 2Q2022. Company remains

more energy-price protected as of 4Q22, with 70% electricity needs secured via hedging until 4Q2023. Orange Pl sees it impractical to hedge for longer period, due to current high electricity price volatility. Still, 2023 energy cost should come in higher y/y;

- **Real estate proceeds**. Real estate is case-by-case and transaction-by-transaction, hence it is unpredictable, no strong guidance can be made, OPL tries to sell as much as it can;
- **Pending cash outflows**. Management points at significant cash outflows ahead: dividend (PLN0.33bn paid in July), 2.1GHh spectrum renewal (some PLN400mn in 2H2022), and 5G auction payment;
- **EBITDAaL guidance**. Informally, company's management is more confident to deliver upper-range of EBITDAaL guidance (low-single growth);
- **Capex and ecapex**. Company expects capex to grow "significantly and visibly" (direct quote from CFO) in 2H2022 vs 1H2022. In 2H2022 OPL initiates heavy mobile network modernization capex, at some PLN400-500mn p.a., which would replace FTTH outlays dying out as of 2023;
- **ARPU upside**. CEO believes Poland has still got room for ARPU growth, hence OPL keeps its more-for-more strategy unchanged.

Comment: We might get this all wrong, and OPL's management might remain ultraconservative, or market environment might turn suddenly supportive, both offering upside to our calculations. Yet, on the basis of today's management call, we would see 2H2022E EBITDAaL flattish y/y, and company's FCF substantially weaker vs 1H2022 or 2H2021. Additionally, we conclude that at the moment OPL's management seems not very much inclined to increase next year's DPS.

2H2022E EBITDAaL discussion. Acc. to informal FY22 EBITDAaL guidance, seen by management at upper range of official range, full-year low-single growth y/y (following +3.8% growth in 1H2022) could suggest 2H2022E EBITDAaL coming in 1-2% lower y/y. This comes quite reasonable, if we take into account 1) energy costs adding potentially PLN20-30mn to quarterly opex in 3/4Q2022E, 2) lack of one-off at other operation line reducing EBITDAaL upside by +PLN20mn, potentially, and 3) hypothetical weakening consumer demand and 4) hypothetical negative impact of Iliad (slowdown in customer bases and ARPU growth).

High capex to trim 2H22E FCF. Additionally, OPL's management guides for heavy 2H2022 capex, substantially higher vs 1H2022. If this promise is delivered (and real estate disposal gains come in lower), ecapex growing from PLN0.6bn in 1H2022 to PLN1.7bn in FY2022 would imply 2H2022 ecapex at PLN1.1bn, or PLN550mn per quarter, PLN0.2bn increase vs average in 1/2Q2022. With Working Capital potentially turning red and 2H2022E EBITDAaL coming in potentially lower vs 1H2022, OPL's 2H2022E cash flow may come in at some PLN0.2bn in 2H2022E, vs PLN648mn in 1H2022.

Will OPL increase its dividend next year? Iliad's inactivity and continued consumption spree could come in supportive to thesis of OPL's dividend increased in 2023 y/y. However, today management highlights future one-off spending and heavy modernization capex, which in our view represent the earliest possible suggestion of 2023 dividend remaining flat at DPS0.25/share (DY 4.2%).

[+] One-offs drive above-consensus results, FY2022 top line guidance upped (no change at EBITDAaL / ecapex)

Published as a Flash Note on July 28, 2022

Fig. 1. Orange Pl: 2Q2022 results review

PLNmn	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	y/y	q/q	Cons.	SANe
Sales	2,828	2,793	3,083	2,918	2,954	2,885	3,171	2,931	**3,055**	*3.4%*	*4.2%*	2,974	2,975
EBITDAaL	728	742	654	709	756	791	707	722	**798**	*5.6%*	*10.5%*	779	773
EBITDAaL margin	*25.7%*	*26.6%*	*21.2%*	*24.3%*	*25.6%*	*27.4%*	*22.3%*	*24.6%*	***26.1%***	*0.3*	*2.3*	*26.2%*	*26.0%*
EBIT	109	150	57	116	224	1,856	15	244	**337**	*50.4%*	*38.1%*	296	273
EBIT margin	*3.9%*	*5.4%*	*1.8%*	*4.0%*	*7.6%*	*64.3%*	*0.5%*	*8.3%*	***11.0%***	*4.3*	*7.9*	*9.9%*	*9.2%*
Net profit	52	53	-21	39	116	1,586	-69	125	**243**	*110%*	*94.4%*	181	160
Net margin	*1.8%*	*1.9%*	*-0.7%*	*1.3%*	*3.9%*	*55.0%*	*-2.2%*	*4.3%*	***8.0%***	*2.9*	*6.4*	*6.1%*	*5.4%*

Source: Company data, Santander Brokerage Poland estimates

Positive. One-offs (PLN30mn at EBITDAaL, PLN49mn at EBIT, and PLN100mn at real estate disposal FCF) drive strong set of reported 2Q2022 results. In light of these, no change at EBITDAaL / ecapex FY2022 guidance represents either management's ultra-conservativism, or weak 2Q2022E guidance.

Very strong one-off at 'other operating, net' (settlements with FiberCo, among others) drove company's EBITDAaL above consensus to +5.6% growth y/y (adj. EBITDAaL y/y growth at +1.6% y/y). Additionally, counter-intuitively OPL accelerated its real estate disposals in 2Q2022, yielding PLN49mn boost to EBIT and PLN100bn support to FCF. 2Q2022 FCF remains very strong (PLN100mn disposals, low capex, surprisingly positive Working Capital), resulting in company's net debt falling to PLN3.5bn, at 1.2x net debt-to-EBITDAaL ratio.

Guidance. OPL upped its top line guidance, leaving EBITDAaL and ecapex guidance unchanged. We believe strong 1H2022 equipment sales and strong revenues on energy resale drove top line upgrade, while its low profitability should keep EBITDAaL barely changed. Management is confident company will post EBITDAaL growth in 2022, but this statement still leaves plenty of room for 2H2022E results, as growth may be achieved also at 2H2022E EBITDAaL falling 3.7% y/y, we calculate. Ecapex left unchanged at PLN1.7-1.9bn is even more surprising to us, as it would suggest company's ecapex at PLN1.1-1.3bn in 2H2022E vs PLN560mn in 1H2022. The latter was depressed by almost PLN0.2bn of disposals, but management's suggestion 'we see real estate disposal regaining momentum' turns 2H2022E official outlook even more cumbersome.

For 2H2022, management suggests higher capex, and we believe 2Q2022 was light at energy costs, which might not be the case in 3/4Q2022E (implying downside to EBITDAaL). The scale of real estate disposals (supportive to EBIT, reported FCF and net debt position), the scale of potential consumption weakness and potential impact of Iliad's new autumn offers / marketing campaign represent key question marks for 2H2022E, we believe.

Key points from Orange Polska's 2Q2022 results:

- **2022 guidance**. Orange Pl increases its top line guidance to 'low single digit growth' from 'very small decline' previously, both EBITDAaL and ecapex guidance left unchanged (respectively 'flat to low-sing digit growth' and 'PLN1.7-1.9bn'). At EBITDAaL, management remains confident company will post y/y growth in 2022;

- **Solid customer bases.** +300k q/q growth at pre-paid and 90k growth at post-paid (ex. M2M)) results in total mobile base at 17.8mn, up 11% y/y. Convergent base grows 15k q/q to reach 1,578k, up 4.0% y/y. Total retail broadband base is up 31k q/q (+2.5% y/y) at 2.89mn, incl. fibre adding 66k q/q to 1,07mn (incl. 11k of non-organic growth) and VDSL down 10k q/q at 470k (down 8% y/y, accelerating). Total TV client base also accelerates decline, down 8k q/q and -4.7% y/y;

- **Decelerating ARPOs growth.** Convergent ARPO comes in flat q/q at PLN113.7, y/y growth decelerating to 2.1% y/y vs 3.7% y/y in 1Q2022. Fixed-service voice down 2.2% at PLN36.2, broadband slightly decelerating growth pace to +3.5% y/y at PLN61.3. At mobile, flat post-paid ARPU growth at +3.1% y/y (PLN26.8) and minor y/y decline at pre-paid (down 0.8% y/y at PLN12.5) results in blended mobile ARPU at PLN20.2, up 0.5% y/y vs +2.6% y/y in 1Q2022;

- **One-offs / unique items.** Very strong 'other operating, net' (settlements with FiberCo, mainly) exceptionally strong at PLN35mn vs 1Q2022 (and our forecast) at PLN5mn, in vour view explaining +PLN20mn consensus beat in full. Quarterly impairments at PLN23mn, up PLN5mn q/q, in line with 1/2Q2022 readings. Below EBITDAaL, non-intuitive high real estate gain at PLN49mn, mitigated at EBIT via PLN26mn loss of JV, PLN18mn weaker q/q. PLN1mn gain on FX gains/losses supports net financials loss to PLN68mn, PLN20mn better q/q. At cash flow, Working Capital remains positive (PLN4mn) despite high equipment sales, and high real estate sales trigger PLN100mn gain from proceeds of property sale, totaling PLN194mn in 1H2022;

- **Net FCF, capex, net debt**. High proceeds from assets disposal, low capex, positive WC and strong EBITDA all drive 2Q2022 FCF to PLN417mn, vs PLN159mn in 2Q21, totaling PLN648mn in 1H2022. Ecapex (capex adj. for disposals) at PLN328mn in 2Q2022 and PLN573mn in 1H2022. Net debt slides PLN354mn q/q to PLN3.5bn, net debt-to-EBITDAaL ratio falls to 1.2x;

- **Market shares (Orange Pl estimates).** Orange's decline at fixed voice penetration at 0.3pp q/q to 26.8% (in Polish households), with Group's retail local access stable q/q at 46.9%. Orange's B2C broadband share (in households) grows 0.3pp q/q to 55.9%. Orange's mobile volume market share flat q/q at 29.0%. Polish mobile penetration at 160.9%, up 13pp y/y and up 4.3pp q/q;

- **Issues**. Ecapex to accelerate in 2H2022, acc. to presentation. Fibre adoption rate at 17.5% in 2Q2022 (vs 6.5mn household base), up from 16.1% in 2Q2021. Energy costs up nearly 50% y/y acc. to company, no detailed figure presented. 90% of company's debt hedged at fixed interest rate till mid-2024. Dividend paid in July and prolongation of 2.1GHz spectrum due in 2H2022.

Fig. 2. Orange Pl: KPIs *[positive marked green, negative marked red]*

	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	1Q y/y	2Q y/y
Customer Bases											
Convergent	1,410	1,441	1,483	1,503	1,517	1,531	1,552	1,563	**1,578**	*4.0%*	***4.0%***
Stationary Voice	2,998	2,941	2,899	2,837	2,782	2,722	2,660	2,662	**2,633**	*-6.2%*	***-5.4%***
Broadband incl.	2,638	2,662	2,702	2,711	2,719	2,729	2,746	2,755	**2,786**	*1.6%*	***2.5%***
VDSL	531	522	527	519	511	501	491	480	**470**	*-7.5%*	***-8.0%***
Fiber	608	662	725	779	827	880	945	999	**1,065**	*28.2%*	***28.8%***
TV Services	996	1,001	1,015	1,017	1,018	1,008	995	978	**970**	*-3.8%*	***-4.7%***
Total Mobile, incl.	15,487	15,669	15,752	15,800	16,047	16,590	16,800	17,306	**17,829**	*9.5%*	***11.1%***
Post-Paid (ex. M2M)	8,681	8,762	8,846	8,906	8,971	9,047	9,098	12,046	**12,238**	*9.3%*	***9.3%***
Pre-Paid	4,982	4,920	4,860	4,783	4,855	4,910	4,953	5,260	**5,591**	*10.0%*	***15.2%***
ARPOs											
Convergent	105.4	105.5	107.1	109.6	111.4	113.2	113.2	113.7	**113.7**	*3.7%*	***2.1%***
Fixed Voice	37.4	36.8	37.3	37.1	37.0	36.5	36.9	36.5	**36.2**	*-1.6%*	***-2.2%***
Fixed Broadband	58.0	58.7	58.7	58.8	59.2	59.5	60.5	61.0	**61.3**	*3.7%*	***3.5%***
Blended mobile	19.3	19.9	19.8	19.6	20.1	20.7	20.3	20.1	**20.2**	*2.6%*	***0.5%***
Post-paid ex. M2M	25.5	25.9	25.6	25.6	26.0	26.7	26.3	26.4	**26.8**	*3.1%*	***3.1%***
Prepaid	11.9	12.5	12.7	11.9	12.6	13.1	12.9	12.3	**12.5**	*3.4%*	***-0.8%***
Headcount	11,549	11,382	11,381	11,176	10,915	10,639	10,452	10,423	**10,170**	*-6.7%*	***-6.8%***

Source: Company data, Santander Brokerage Poland estimates

CPS enriches its content with Disney+, more squeeze of Orange?

Excerpt from Flash Note published on June 13, 2022

Last Friday Cyfrowy Polsat informed that Disney+ content would be offered on an exclusive basis with CPS bundled packages. Clients will be able to subscribe for Disney+ regardless whether they have CPS's convergent service, Netia fixed-line one, or Polkomtel's mobile / OTT Polsat Box Go packages.

Cyfrowy Polsat's new pricing, including Disney+ offer, is upped from PLN15/month to PLN10/month at all fixed-line and OTT offers' levels. The company's mobile customers will enjoy Disney+ content for free for 12 months (in 24-month agreements), paying standard fee at PLN29/month afterwards.

Comment: CPS enriches its unique content, with some bundled offers' price concessions tailored to 1) increase customers' loyalty and 2) make them re-new contract(s) for another 24 months and pay new (higher) prices. New offers of Iliad and CPS should keep Orange Pl's customer bases / ARPUs / results under pressure, we believe.

Orange Pl. Negative. Several weeks ago Iliad presented its new convergent offer, priced below Orange Pl's convergent offer, thus likely exerting pressure on Orange Pl's core service client bases and ARPUs, we believe. The above-mentioned content offer of Cyfrowy Polsat should represent another negative news to Orange Pl customer bases and ARPUs, as Cyfrowy Polsat sacrifices part of its 'old bundle' price to offer exclusive content.

Orange Pl: pale at own content and OTT. Iliad has got agreements with NENT and Amazon Prime, Cyfrowy Polsat enjoys own content and Disney+, Canal+ has got its own content and large Polish movies' library, and all these companies are offering OTT services. In our view Orange Pl looks rather pale with respect to both unique content and OTT proposition. The former represents formidable loyalisation tool, we believe. At the latter, we admit operators' OTT sales or client base gains has remained very timid until now. However, if OTT becomes a standard tomorrow (or its propagation accelerates), Orange Pl could be cashing in gains on infrastructure access (result-supportive in medium term), but lack of unique content may cost company dearly in terms of customer bases and results in the long-term, we believe.

Iliad inks sale of UPC infrastructure

Excerpt from Flash Note published on June 26, 2022

Yesterday P4 (Play), belonging to the French Iliad, inked the disposal of 50% stake in the recently acquired UPC CaTV fixed-line infrastructure comprising of access to 3.7mn households in Polish urban areas. P4 will dispose a 50% stake in FiberForce subsidiary (UPC network is to be transferred to this company in 2H2022) for PLN1.775bn to InfraVia V Invest. The transaction closure is expected in 1Q2023. The infrastructure fund is planning to sell wholesale access to 3.7mn households in the market, with Play and UPC remaining natural buyers.

According to Play, FiberForce has got an ambition to expand the newly acquired network by over 2mn fiber connections.

Comment: Transaction shows there's life in the infra market, representing a hypothetical natural upside to OPL, but 1) it might have been pre-agreed quarters ago and 2) we are uncertain about Orange France willingness to sell its Polish infrastructure. A new wholesale fixed-line player, willing to monetize on its urban network (likely overlapping with Orange Pl), may represent negative news to OPL's customer bases, we believe, especially if OTT becomes customers' new toy.

Transaction pricing. If we assume monthly connection fee at PLN25 and 1.1mn active clients of UPC, we believe FiberForce assets could generate some PLN330mn (scale of annual EBITDA cut to UPC). In this context, we could estimate transaction pricing at EV/EBITDA of some 10.8x.

Pre-agreed transaction, offering a little insight into infra funds' appetite or pricing? Iliad has been cooperating with infra fund InfraVia in the past, the latter also took over UPC's infrastructure in Germany, hence we assume the transaction between Iliad and InfraVia was pre-agreed months or quarters ago. If we are correct, this infra transaction does not imply renewed / strong interest of infra funds in fiber assets as the transaction and its pricing might have been pre-agreed a long time ago.

Orange Pl: Negative Impact. New transaction, in our view, could offer upside to Orange Pl only if Orange France is willing to sell its Polish infrastructure (we are not certain this is the case), and this transaction might offer no insight into infra funds' appetite for assets if it has been pre-agreed between Iliad and InfraVia (likely scenario, we think). Also, infra entrant pays the highest price for first assets, and Iliad's disposal lowers attractiveness / price of OPL's assets, we conclude. Wholesale access to UPC infrastructure, partially overlapping with OPL's network (3.7mn urban accesses today, potentially over 5.7mn in the future) might increase pressure on OPL's customer bases, and InfraVia's planned network expansion may accelerate capex/household cost. Finally, should access to Polish customer become a commodity (Cellnex, InfraVia), OTT proposal might potentially take over, and we believe Orange Pl's inferior offer (lack of own content) could keep company at disadvantage vs Play / Cyfrowy Polsat / Canal+ offers.

InfraVia will naturally intend to monetize its new assets, selling wholesale access to 3.7mn current households and prospective +5.7mn future households covered. Therefore, we assume that yesterday's competitive pressures between UPC and Orange Pl may remain on the rise, to the detriment of the latter. Additionally, InfraVia is planning to expand its reach substantially, and while it should not happen quickly, we assume the overlap between Orange Pl and UPC networks might increase (negative for OPL). Also, new player investing into its network could easily increase average cost of fiber network construction (negative to capex of FTTH expanding operators). Finally, we believe likelihood of T-Mobile buying access directly from Orange Pl diminishes considerably.

Orange Spain and Masmovil to create JV – official statement

Published as a Flash Note on July 25, 2022

The above-mentioned transaction had been suggested by the two companies earlier, and an exclusivity agreement was signed in March 2022. The deal is to be finalized by 2H2023. It would reduce the number of Spanish operators from four to three.

Key takeaways concerning the transaction:

- Total value of JV at EUR18.6bn, incl. EUR7.8bn on Orange Spain. Total JV valuation is some EUR1bn lower than estimated in March 2022 (when Orange Spain and Masmovil announced exclusivity in negotiations);
- Orange Spain has 17.3mn customers, incl. 13.2mn mobile ones, and Masmovil has 14.7mn clients, incl. 11.6mn mobile ones. The two operators have jointly 16mn Spanish households within FTTH reach. Acc. to official announcements , the two operators see their 2022 top line at EUR7.3bn, and EBITDAaL at EUR2.2bn;
- Orange Spain estimates annual synergies at EUR450mn as of the fourth year following the deal closure. These synergies include EUR230mn from co-operation in the area of networks, of which EUR135mn should come from mobile network;
- Orange and Masmovil do not rule out an IPO of the JV in the mid-term, from 24 to 42 months following the closure of the deal. In such a case, Orange

France would have the right to take over control over the JV at the price implied by the IPO pricing.

Comment: The deal is not surprising, as the two entities had been suggesting it for months, and they signed an exclusivity agreement this March. The two companies are eyeing EUR430mn in synergies within four years from the transaction finalization date, representing 19.5% upside to joint 2022 EBITDAaL, of which half should come in from co-usage of mobile and fixed-line networks (thus implying EUR200mn in synergies at opex level).

We see it as positive news for the Spanish telco competitive outlook, with the number of operators reduced to three from the current four. Based on this example we believe different theories might be suggested concerning the Polish market as well. Still, in our view, the two other Spanish operators might be the true winners of this transaction, and we believe it would be the same in Poland. In our view, a JV of two operators makes sense only if the market is set for heavy investments, and two operators can jointly manage these (while a single operator could not), which could offer a competitive edge of a joint organism over two separate ones. This is not the case in Poland, we believe. Therefore, **if any two Polish operators announced such a transaction, we would appreciate their long-term synergies, but 1) reduced competitive pressures and 2) dynamics of the market** (one operator with 50% share and two operators at 25% share, which we see gravitating towards 33% each in the long-term, offering a hypothetical free lunch to two individual players) **should turn two other individual operators into short- to medium-term winners**, we believe.

Additionally, we are presenting our Flashnotes published in March-April 2022, as these summarize some of the risk(s) of the Polish telecom sector.

[-] Iliad suggests rapid launch of new offer in Poland

Published as a Flash Note on April 04, 2022

Below we present several excerpts from Iliad's official announcements following the closure of UPC takeover by Play (most important issues marked red by Santander). UPC is the leader in CaTV segment in Poland, focused on urban areas, with 3.7mn fiber-connected households and 1.6mn single fixed-line customers (data acc. to Iliad's announcement).

- General announcement of Iliad: "…this acquisition of UPC Poland gives Iliad a further foothold in the Polish telecommunications market. Together, Play and UPC Polska will form a new convergence leader, proposing some of the most innovative and competitive offerings in the fixed and mobile B2C and B2B markets. The alliance between the two operators will also enable the Group to increase its capital outlay on latest-generation telecoms networks across Poland."

- CEO of Iliad Group: "…we are delighted to welcome UPC Polska's teams into the iliad Group. The Fiber expertise of UPC Polska and Free, combined with Play's innovation capacity, will enable us to rapidly launch new offers in the Polish market.";
- CEO of Play: "Together, we now have the largest mobile network, fastest Fiber and broadest content offering in Poland. Thanks to the fantastic teams at Play and UPC, we're going to reinvent convergence, which will be of great advantage for Polish consumers."

Comment: Very Negative, potentially. Naturally, Iliad had to make some kind of a statement following the long-lasting takeover of Polish UPC. However, investors should keep in mind that Iliad is no longer public, hence Iliad has got no minority shareholder to be pleased with its statements and we believe Iliad may actually mean what they are saying. In our opinion, the quotes "rapidly launch new offerings", "new convergence leader" and "competitive offerings to B2C and B2B markets" all highlight a high downside risk to the Polish telecoms.

We assume Play (leading Polish pure-mobile player) and UPC (largest Polish urban CaTV player) will represent the foundation of a brand new convergent offer in Poland, especially as Iliad enjoys content from Amazon Prime and NENT, and the latter also could enrich the new bundled offer with sports content. We need to stress that we do not expect the new offer to come in cheaper compared to current offers of other operators, as a low-priced offer may be reasonable only if a new entrant starts from scratch (which is not the case in Poland). However, we believe new Iliad's convergent offer in Poland will 1) substantially trim any upside to the Polish ARPUs (strong negative in the environment of high inflation) and 2) likely come in negative to other operators' customer bases.

OPL most exposed, downside to CPS. While Orange Pl has been expanding its fiber network to suburbs and rural areas, the level of networks' overlap with UPC still remains high. Orange Pl has had serious problems with proliferation of its convergent offer in Poland (company failed to deliver on its 2020 convergent base guidance by several hundred thousand customers) for years, and the new offer might potentially cancel out any convergent offer growth. Cyfrowy Polsat's KPIs would be less-negatively affected, we believe, though the pressure on KPIs would come natural. While customer bases could represent long-term problems, Iliad's potential stable-price competitive offer would not let Polish ARPUs grow in line with inflation, which would expose two WSE-listed telecoms' EBITDA and FCF (via continued pressure on opex), we believe.

[-] Polish DYs, the Europe's Worst 10YR Hedge?

Published as a Flash Note on April 13, 2022

The Russian invasion of Ukraine triggered a sharp increase in European 10-year bonds pricing. However, the changes in country-specific 10YR bond pricing are far from equal.

In Germany, 10-year interest rates grew from negative 0.4% in December 2021 to 0.8% presently, while in the CEE region 10YR bond pricing expanded to 5.8% in Poland and 6.6% in Hungary, a strong 3.6-3.8pp seven-month increase.

Fig. 3. European Telecoms: 2022E DYs

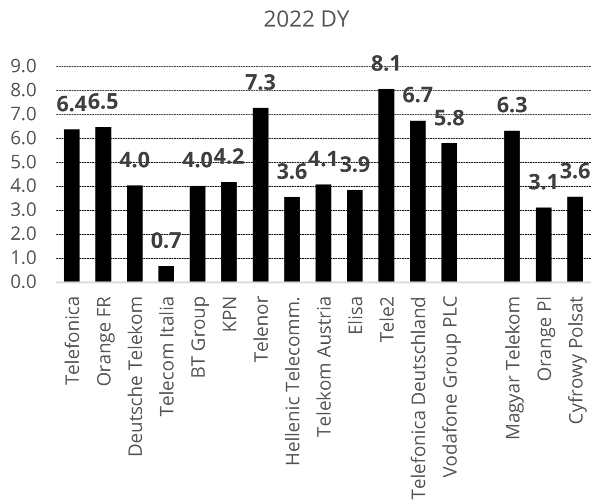
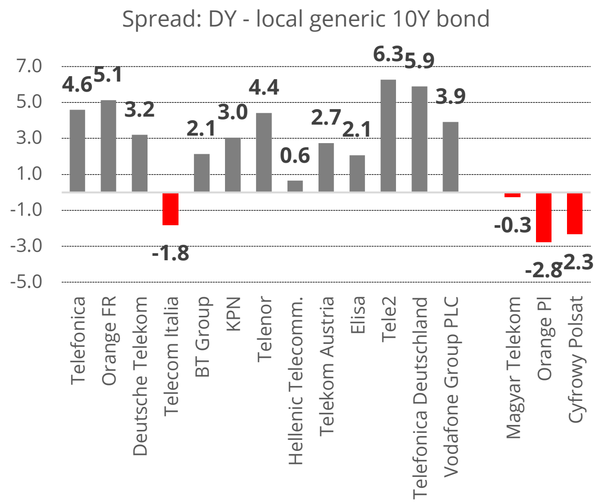


Fig. 4. European Telecoms: 2022E DYs vs 10YR Spread



Source: Bloomberg, Santander Brokerage Research

Comment: 2022E Dividend Yields of the European telecoms range from 3.1% to 8.1%, with the only exception of Telecom Italia's 0.7%. In this comparison, the Hungarian Magyar Telekom looks solid (6.3%, incl. buy-back) and 2022E DYs of the Polish telecoms come in the lowest in the sector.

However, the aforementioned comparison could be applied only when interest rates were very low and the differences were not eye-striking, we believe. The 10-year generic interest rate grew to 0.8% in Germany, but these skyrocketed to 5.8-6.6% in the CEE region, and such huge discrepancy should potentially result in differentiated approach to DYs of the European telecoms, we believe.

Simple spread between each telecom's 2022E DY and local generic 10-year interest rate unveils quite a gloomy picture for the CEE telecoms. Spreads for all European telecoms (except Telekom Italy) remain in the black, offering returns in-excess-of-10-year-bonds, but this is not the case for CEE telecoms in general and for the Polish telecoms in particular. Investor choosing to buy dividend yields of Cyfrowy Polsat and Orange Pl actually will receive only half of today's Polish 10-year bond. In a perfect world (no exchange rate risk, no commissions etc.), we believe investors should choose to go long "high-DY paying European telecom + Polish 10-year bond", financing it with shorting "OPL / CPS's low DY + European 10-year bond".

On top of that, high 10-year interest rates might be seen as increased risk of 1) unfavorable macro trends and 2) valuation-detrimental WACC changes, which coupled with 3) Poland-specific risk of Iliad kicking off its new convergent offer, should NOT favor Polish telecoms over their European peers, we believe.

Energy & Interest Rate Exposure: Telecoms at risk of FCF warnings?

Published as a Flash Note on March 21, 2022

The prices of gas, coal and energy have all remained at very high levels since early 2022. Additionally, interest rates have all increased substantially in the CEE region. Being aware of high short-term volatility, we run a sensitivity analysis for the impact of high energy prices and interest rates on the Metals&Mining, Telecom and Utility sectors. ZE PAK's potential one-year PLN0.6bn EBITDA upside may turn the stock into multi-sector winner of the current environment, we believe. An upside to CEZ is also decent, and we believe that the Polish state-run utilities should benefit either from widening spreads or carve-out. In Metals&Mining, downsides seem insignificant for both KGHM and JSW (top line still remains of key importance), and upside, though decent, will likely be capped at LWB. Most interesting takeaways pop out at Telecoms, as current energy prices and interest rates might represent 20-24% downside risk to each telecom's annual FCF, we calculate.

Fig. 5. Telecoms: High energy prices' impact [PLNmn]

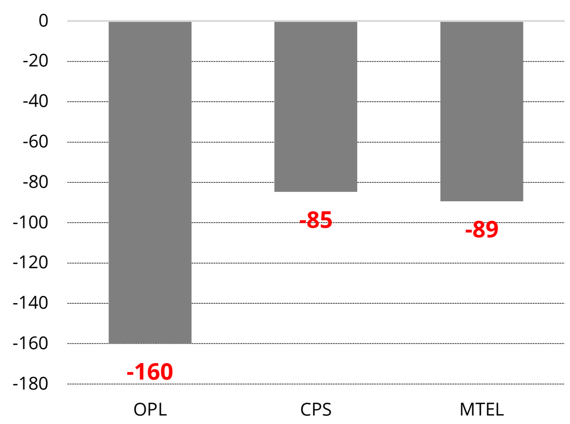


Fig. 6. Telecoms: High interest rate impact [PLNmn]

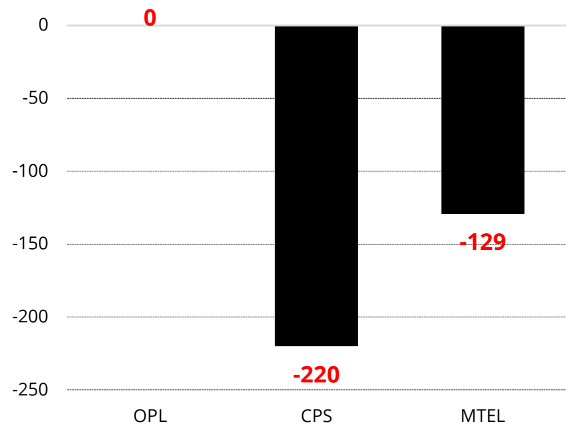


Fig. 7. Telecoms: One-year EE + RFR vs Market Cap

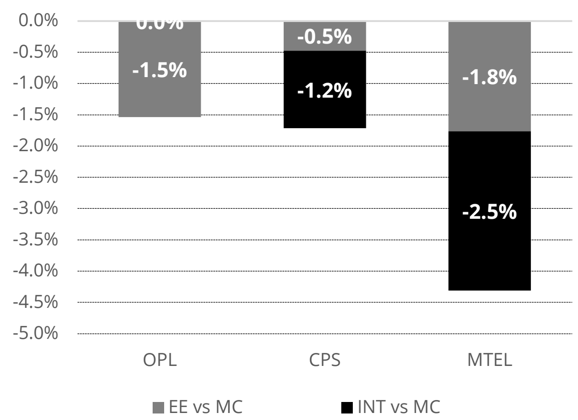
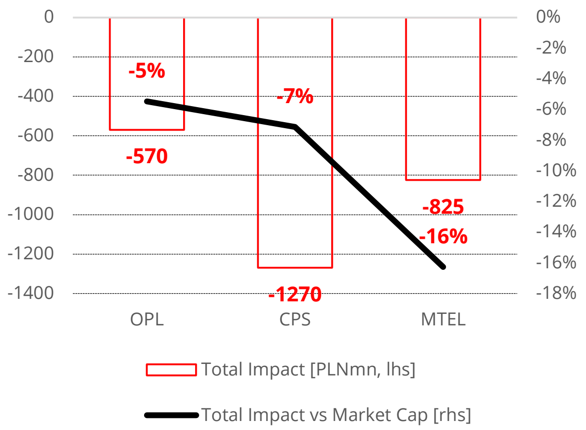


Fig. 8. Telecoms: Multi-year* EE + RFR vs Market Cap



*Source for all graphs: Santander Brokerage Poland estimates, share prices as of March 18, 2022, * calculations based on 2-year high electricity prices and 5-year high interest rates*

Orange Pl records the highest electricity consumption among the three CEE telecoms so we calculate that the downside resulting from high electricity prices will be the highest in OPL case. On the contrary, Orange Pl's interest rates exposure is hedged until 2024 acc. to the company, so the current interest rate growth should have no negative impact on Orange Pl in 2023E, we believe.

The combined negative impact of electricity prices and interest rates is the highest in Magyar Telekom case, and we calculate its potential 2023E negative at 4.3% of the company's Market Cap. In Poland, high downside resulting from interest rates hikes turns Cyfrowy into the most vulnerable Polish telecom, seeing its total electricity+interest rate burden at PLN305mn in 2023E, outpacing PLN160mn downside to Orange Pl.

Please note that the above-mentioned downsides (not including downside risk from other opex lines' above-expectation growth) turn very significant vs three telecoms' FCF estimates. Total downside from electricity and interest rates may settle at HUF17bn for Magyar Telekom, which would represent 24% of 'above HUF70bn' FCF guidance for 2023E. At Cyfrowy Polsat, PLN305mn FCF downside would represent some 23% of its 2021E FCF, and OPL's PLN160mn downside equals 20% of the company's 2021 FCF, we assume. All in all, continued high electricity prices and the steep growth of interest rates pose high 20-24% downside risk to the three companies' FCF, we believe. If high electricity prices continue by 2023E, CEE telecoms' 2023E EBITDA and FCF outlooks would be at risk, in our opinion.

Valuation

In our valuation process we use DCF, DDM and comparable valuation methodologies. DCF remains our preferred valuation tool, as it relies more on the company's long-term outlook. As changes in financial results or changes in investors' preferences drive the comparable valuation, and management's decisions may alter DDM valuation outcomes, we see these as supportive to the DCF. Hence, we use DCF as the primary valuation tool (50% weight), with DDM and comparable valuation having 25% weight each.

In the attempt to catch up with potentially multi-year market changes triggered by the Russian assault on Ukraine, in our model we apply 6.0% for years 2022-2024E and flat 4.0% thereafter. These result in our WACC at 10.5% in 2022-24E and 8.6% beyond, and Cost of Equity respectively at 13.7% and 11.7%.

DCF valuation

Fig. 9. Orange Pl: WACC calculation

	Years 2022-24E	Years 2025E onwards
Risk-free rate	6.0%	4.0%
Unlevered beta	1.0	1.0
Levered beta	1.5	1.5
Equity risk premium	5.0%	5.0%
Cost of equity	**13.7%**	**11.7%**
Risk-free rate	6.0%	4.0%
Debt risk premium	1.0%	1.0%
Tax rate	19%	19%
After tax cost of debt	5.67%	4.05%
%D	40%	40%
%E	60%	60%
WACC	**10.49%**	**8.64%**

Source: Santander Brokerage Poland estimates

Santander

Fig. 10. Orange Pl: DCF valuation

PLNmn	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Sales	12,127	12,154	12,257	12,494	12,612	12,870	13,068	13,320	13,598	13,895
EBIT	1,140	1,039	1,318	1,565	1,505	1,532	1,487	1,490	1,517	1,566
Cash taxes on EBIT	-217	-197	-250	-297	-286	-291	-282	-283	-288	-297
NOPAT	923	842	1,067	1,268	1,219	1,241	1,204	1,207	1,229	1,268
Depreciation	2,004	1,919	1,776	1,716	1,716	1,716	1,716	1,716	1,716	1,716
Change in operating WC	38	-8	44	38	30	21	11	-1	-14	-27
Capital expenditure *	-2,033	-2,922	-1,963	-2,002	-2,021	-2,473	-2,505	-2,744	-5,650	-2,251
Free cash flow	**932**	**-169**	**924**	**1,020**	**944**	**504**	**425**	**178**	**-2,719**	**706**
WACC	*10.51%*	*10.51%*	*10.51%*	*8.66%*	*8.66%*	*8.66%*	*8.66%*	*8.66%*	*8.66%*	*8.66%*
PV FCF 2022-2031E	2,349									
Terminal growth	2.0%									
Terminal Value (TV)	19,011									
PV TV	7,877									
Total EV	10,226									
Net debt**	-3,740									
Cost of spectrum renewal ***	-983									
Equity value	5,503									
Number of shares (mn)	1,312									
Value per share (PLN, Jan 2022)	4.19									
Month	12									
target price, Dec 2023 (PLN)	**5.21**									

*Source: Santander Brokerage Poland estimates, * includes spectrum payments, ** includes future gains on T-Mobile agreement, *** includes discounted cost of mobile spectrums' renewals paid after 2031E at PLN1.25bn, and 15% likelihood of gain on disposal of FTTH / mobile assets*

Fig. 11. Orange Pl: Comparable valuation

Company	P/E			EV/EBITDA			P/CE*		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Cyfrowy Polsat	11.0	11.0	10.5	6.0	5.7	5.4	3.3	3.3	3.3
Median – Poland	***11.0***	***11.0***	***10.5***	***6.0***	***5.7***	***5.4***	***3.3***	***3.3***	***3.3***
Western Europe									
Telefonica	12.2	11.6	10.8	6.4	6.2	6.1	2.4	2.4	2.4
France Telecom	8.8	8.4	7.7	5.1	4.9	4.5	2.6	2.6	2.5
Deutsche Telekom	12.8	11.7	10.4	6.7	6.3	5.8	3.0	3.0	3.0
Telecom Italia	n.a.	23.7	13.3	6.2	5.8	5.7	0.8	0.8	0.7
BT Group	8.2	7.9	8.4	4.6	4.4	4.3	2.6	2.6	2.5
KPN	19.0	17.4	15.9	7.7	7.6	7.4	6.3	6.3	6.1
Telenor	13.8	13.4	12.8	6.0	5.8	5.7	4.3	4.3	4.4
Hellenic Telecommunications	13.6	12.3	11.6	5.7	5.6	5.5	6.2	6.2	6.0
Telekom Austria	7.3	6.9	6.4	3.6	3.5	3.4	2.7	2.7	2.7
Median	12.5	11.7	10.8	6.0	5.8	5.7	2.7	2.7	2.7
EMEA region									
Magyar Telekom	7.1	7.1	5.2	3.7	3.7	3.4	1.7	1.7	1.7
Bezeq Telecommunication	14.3	13.0	12.0	6.3	6.2	6.0	5.2	5.2	5.0
DIGI Romania	4.2	9.7	7.0	4.1	3.8	3.5	0.7	0.7	0.6
Hrvatski Telekom	14.0	18.5	16.5	3.4	3.3	3.3	4.8	4.8	4.6
Median	***10.5***	***11.3***	***9.5***	***3.9***	***3.7***	***3.4***	***3.2***	***3.2***	***3.1***
SET companies									
Elisa	23.5	22.5	21.5	14.3	13.8	13.4	14.2	14.2	13.7
Tele2	16.9	18.4	17.2	9.9	9.5	9.2	7.9	7.9	7.5
Telefonica Deutschland	75.6	38.9	26.8	4.6	4.5	4.4	3.2	3.2	3.1
Vodafone Group	14.0	13.2	12.4	6.3	6.3	6.2	3.2	3.2	3.2
Median	***20.2***	***20.4***	***19.3***	***8.1***	***7.9***	***7.7***	***5.6***	***5.6***	***5.4***
All-region median	***13.7***	***13.0***	***11.6***	***6.0***	***5.7***	***5.5***	***3.2***	***3.2***	***3.1***

Source: Bloomberg consensus estimates for comparable companies, share prices as of July 29, 2022
** Cash earnings equal to sum of net profit and depreciation*

Fig. 12. Orange Pl: Multiple-based valuation implications (PLN per share)

	P/E 2022-24E	EV/EBITDA 2022-24E	P/CE 2022-24E	Average 2022-24E
Comparative valuation	6.3	9.4	6.2	7.3

Source: Bloomberg, Santander Brokerage Poland estimates

DDM valuation

Fig. 13. Orange Pl: DDM valuation

PLNmn	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net profit	696	626	781	929	888	906	853	829	748	689
Pay-out	20%	47%	52%	42%	35%	37%	36%	38%	40%	44%
Dividend paid	328	328	328	328	328	328	328	328	328	328
Cost of Equity	12.1%									
Valuation target [PLN]	**5.1**									

Source: Santander Brokerage Poland estimates

Valuation summary

Fig. 14. Orange Pl: Valuation changes**

PLN per share	New	Previous	Change
DCF valuation	5.2	4.9	*6%*
DDM valuation	5.1	5.0	*2%*
Comparable valuation (based on 2022-2024E)	7.3	7.6	*-4%*
Blended valuation *	**5.7**	**5.6**	***2%***

*Source: Santander Brokerage Poland estimates, * 50% DCF / 25% DDM / 25% comparable, ** rounded figures, DCF and DDM calculated for December 2023, vs December 2022 in previous report*

Changes to forecasts

Fig. 15. Orange Pl: Forecast changes

PLNmn	2022E			2023E			2024E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	12,127	11,904	*2%*	12,154	12,019	*1%*	12,257	12,249	*0%*
EBITDAaL	2,979	2,972	*0%*	2,874	2,880	*0%*	3,010	2,975	*1%*
EBIT	1,140	1,032	*10%*	1,039	996	*4%*	1,318	1,251	*5%*
Net profit	696	629	*11%*	626	592	*6%*	781	747	*5%*

Source: Santander Brokerage Poland estimates

Fig. 16. Orange Pl: Santander forecasts vs market consensus

PLNmn	2022E			2023E			2024E		
	SANe	Cons.	*Diff.*	SANe	Cons.	*Diff.*	SANe	Cons.	*Diff.*
Sales	12,127	11,930	*2%*	12,154	12,121	*0%*	12,257	12,249	*0%*
EBITDAaL	2,979	3,003	*-1%*	2,874	3,011	*-5%*	3,010	3,113	*-3%*
EBIT	1,140	1,016	*12%*	1,039	1,139	*-9%*	1,318	1,261	*5%*
Net profit	696	596	*17%*	626	697	*-10%*	781	793	*-2%*

Source: Bloomberg, Santander Brokerage Poland estimates

Financials

Fig. 17. Orange Pl: Profit & Loss account, 2016-24E (PLNmn, under IFRS16 as of 2019)

PLNmn (year to December)	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Operating revenues	11,538	11,381	11,085	11,407	11,508	11,928	12,127	12,154	12,257
Non-operating revenues	0	0	0	0	0	0	0	0	0
Sales	**11,538**	**11,381**	**11,085**	**11,407**	**11,508**	**11,928**	**12,127**	**12,154**	**12,257**
Costs of sales	-4,353	-4,323	-4,280	-4,341	-4,371	-4,349	-4,371	-4,358	-4,514
Operating expenses	-4,003	-4,038	-3,700	-3,841	-3,693	-4,021	-4,113	-4,246	-4,097
Other operating income/(expense)	-19	-213	30	133	-90	1,528	-7	-100	-60
EBITDAaL	**3,163**	**2,807**	**2,809**	**2,735**	**2,797**	**2,963**	**2,979**	**2,874**	**3,010**
Impairment of fixed assets	-1,792	-6	0	50	57	44	80	84	84
Depreciation and amortization	-2,725	-2,572	-2,464	-2,465	-2,511	-2,255	-2,004	-1,919	-1,776
Operating Income	**-1,354**	**229**	**345**	**414**	**404**	**2,211**	**1,140**	**1,039**	**1,318**
Net financial income (expense)	-359	-304	-305	-298	-342	-281	-287	-275	-360
	0	0	0	0	0	0	0	0	0
Income before taxes	**-1,713**	**-75**	**40**	**116**	**62**	**1,930**	**853**	**764**	**958**
Income taxes	-33	15	-30	-27	-16	-258	-156	-138	-177
Net profit	**-1,746**	**-60**	**10**	**89**	**46**	**1,672**	**696**	**626**	**781**
Gross profit margin	*62.3%*	*62.0%*	*61.4%*	*61.9%*	*62.0%*	*63.5%*	*64.0%*	*64.1%*	*63.2%*
EBITDA margin	*27.4%*	*24.7%*	*25.3%*	*24.0%*	*24.3%*	*24.8%*	*24.6%*	*23.6%*	*24.6%*
EBIT margin	*-11.7%*	*2.0%*	*3.1%*	*3.6%*	*3.5%*	*18.5%*	*9.4%*	*8.6%*	*10.8%*
Net profit margin	*-15.1%*	*-0.5%*	*0.1%*	*0.8%*	*0.4%*	*14.0%*	*5.7%*	*5.1%*	*6.4%*
Changes y/y									
Operating revenues	*-2.6%*	*-1.4%*	*-2.6%*	*2.9%*	*0.9%*	*3.6%*	*1.7%*	*0.2%*	*0.8%*
Cost of sales & Operating expenses	*0.1%*	*0.1%*	*-4.6%*	*2.5%*	*-1.4%*	*3.8%*	*1.4%*	*1.4%*	*0.1%*
EBITDA	*-7.8%*	*-11.3%*	*0.1%*	*-2.6%*	*2.3%*	*6.0%*	*0.5%*	*-3.5%*	*4.7%*
Operating Income	*n.m.*	*n.m.*	*50.7%*	*20.0%*	*-2.4%*	*447.4%*	*-48.5%*	*-8.8%*	*26.8%*
Net profit	*n.m.*	*n.m.*	*n.m.*	*790.8%*	*-48.4%*	*3535.7%*	*-58.4%*	*-10.2%*	*24.8%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 18. Orange Pl: Per Share Ratios, Market Ratios, 2016-24E *

	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
EPS	-1.3	0.0	0.0	0.1	0.0	1.3	0.5	0.5	0.6
CEPS	0.7	1.9	1.9	1.9	1.9	3.0	2.1	1.9	1.9
BVPS	7.6	7.6	8.0	8.0	8.1	9.6	10.0	10.3	10.8
DPS	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.25**	**0.25**	**0.25**
FCF [PLNmn] **	-2,662	159	411	850	24	1,572	676	-539	485
FCF adj. For spectrums [PLNmn] **	506	159	495	850	24	1,572	987	461	485
FCF Yield	6.7%	2.3%	7.5%	11.1%	0.3%	16.5%	12.9%	6.0%	6.3%
Capex to Sales	45.3%	17.6%	20.3%	19.9%	18.2%	15.2%	16.8%	24.0%	16.0%
Capex to Sales adj. for spectrum	17.9%	17.6%	19.5%	19.9%	18.2%	15.2%	15.0%	16.0%	16.2%
Dividend Yield	4.3%	0.0%	0.0%	0.0%	0.0%	0.0%	4.3%	4.3%	4.3%
Net debt, excl. leasing [PLNmn]	6,934	6,438	6,922	6,109	5,655	4,060	3,712	4,578	4,422
Net debt/EBITDAaL	**2.2**	**2.3**	**2.5**	**2.2**	**2.0**	**1.4**	**1.2**	**1.6**	**1.5**
Net Debt to Total Capital	41%	39%	40%	33%	30%	21%	19%	22%	21%
P/E	Neg.	Neg.	656.2	86.3	192.3	5.7	11.0	12.2	9.8
P/CE	7.7	2.7	2.7	3.0	3.5	2.4	2.8	3.0	3.0
EV/EBITDA	4.6	4.7	4.8	5.1	5.2	4.6	3.8	4.3	4.0
EV/EBIT	Neg.	57.8	39.1	33.8	35.9	6.2	10.0	11.8	9.2

*Source: Company data, Santander Brokerage Poland estimates, * ratios for 2016-21 calculated on respective annual share price averages, ** FCF includes one-off income from FiberCo*

Fig. 19. Orange Pl: Balance Sheet, 2016-24E (PLNmn, under IFRS16 as of 2019)

PLNmn (year to December)	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Non-Current Assets	**20,187**	**19,660**	**19,326**	**20,847**	**20,937**	**22,020**	**22,222**	**23,523**	**24,007**
Intangible Assets	7,869	7,403	7,018	6,808	6,469	6,269	6,044	6,508	5,972
PPA	10,678	10,666	10,738	10,402	10,301	9,728	10,155	10,991	12,012
Long-term financial assets and lease assets	711	641	736	2,829	3,367	5,442	5,442	5,442	5,442
Deferred tax assets	929	950	834	808	800	581	581	581	581
Current Assets	**2,639**	**3,273**	**3,969**	**3,493**	**3,363**	**4,137**	**5,480**	**4,708**	**5,007**
Inventories	163	217	240	218	230	281	309	319	335
Trade and other receivables	2,033	2,266	2,806	2,578	2,305	2,345	2,580	2,664	2,791
Current tax receivable	181	144	312	293	470	578	578	578	578
Cash and cash equivalents	262	646	611	404	358	933	2,013	1,147	1,303
Total assets	**22,826**	**22,933**	**23,295**	**24,340**	**24,300**	**26,157**	**27,702**	**28,231**	**29,014**
Equity	**10,007**	**9,936**	**10,501**	**10,564**	**10,597**	**12,609**	**13,121**	**13,563**	**14,160**
Ordinary shares	3,937	3,937	3,937	3,937	3,937	3,937	3,937	3,937	3,937
Treasury shares	0	0	0	0	0	0	0	0	0
Share premium	832	832	832	832	832	832	832	832	832
Retained earnings, funds and reserves	5,238	5,167	5,732	5,795	5,828	7,840	8,352	8,794	9,391
Non-controlling interests	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Non-Current Liabilities	**8,431**	**6,952**	**6,846**	**9,682**	**6,064**	**9,193**	**9,925**	**9,925**	**9,925**
Long-term financial debts	7,153	5,553	5,381	8,072	4,624	7,268	8,000	8,000	8,000
Deferred tax liabilities	81	83	0	0	0	0	0	0	0
Non-current provisions for liabilities and charges	280	553	468	649	657	739	739	739	739
Non-current other liabilities	917	763	997	961	783	1,186	1,186	1,186	1,186
Current Liabilities	**4,386**	**6,043**	**5,946**	**4,092**	**7,637**	**4,353**	**4,654**	**4,741**	**4,927**
Short-term financial debt	41	1,529	2,150	420	4,091	573	573	573	573
Trade and Other payables	2,642	2,421	2,929	2,838	2,712	3,007	3,308	3,395	3,581
Income tax liability	509	478	0	0	0	0	0	0	0
Provisions for liabilities and charges	1,194	1,615	867	834	834	773	773	773	773
Total Equity and Liabilities	**22,826**	**22,933**	**23,295**	**24,340**	**24,300**	**26,157**	**27,702**	**28,231**	**29,014**

Source: Company data, Santander Brokerage Poland estimates

Fig. 20. Orange Pl: Cash Flow Statement, 2016-24E (PLNmn, under IFRS16 as of 2019)

PLNmn (year to December)	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Profit before tax	-1,713	-75	40	116	63	1,930	853	764	958
Non-cash adjustments for:	0	0	0	0	0	0	0	0	0
Depreciation	2,725	2,572	2,464	2,465	2,511	2,255	2,004	1,919	1,776
Other	1,624	-104	-38	321	144	-14	144	144	144
Operating cash flow before working capital changes	2,636	2,393	2,467	2,902	2,718	4,171	3,000	2,827	2,878
Working capital adjustments:	-55	-254	-55	-169	-403	-1,871	38	-8	44
Cash flows from operating activities	2,581	2,139	2,412	2,733	2,315	2,300	3,038	2,819	2,922
Income tax paid	-32	20	-30	-27	-16	-258	-156	-138	-177
Net cash flow from operating activities	2,549	2,159	2,382	2,706	2,299	2,042	2,882	2,681	2,745
Purchase of property, plant, equipment, intangibles	-5,211	-2,000	-2,220	-2,627	-2,397	-2,115	-2,330	-3,219	-2,260
Proceeds from sales of non-current assets	119	123	156	492	122	1,645	124	0	0
Net cash used in investing activities	-5,077	-1,574	-3,051	-3,874	-2,568	65	-2,206	-3,219	-2,260
Borrowings, net	2,524	10	449	961	223	-874	732	0	0
Acquisition of treasury shares	0	0	0	0	0	0	0	0	0
Other financials / spectrum fees	0	0	0	0	0	-1,345	0	0	0
Dividends paid	-328	0	0	0	0	0	-328	-328	-328
Net cash used in financing activities	2,196	10	449	961	223	-1,532	404	-328	-328
Net increase/(decrease) in cash and cash equivalents	-4	595	-220	-207	-46	575	1,080	-867	157
Cash and cash equivalents at beginning of year	341	504	439	388	321	822	2,043	1,445	1,384
Cash and cash equivalents at the year end	262	927	611	404	358	933	2,013	1,147	1,303

Source: Company data, Santander Brokerage Poland estimates

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The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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