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Orange PL – Telecom Offers Wholesale Fiber Access To T-Mobile

Rating: buy | target price: PLN 7.30 | current price: PLN 5.93

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Orange Polska has commenced negotiations with local rival T-Mobile as regards wholesale access to its fiber infrastructure in areas where the local broadband market is characterized by high competition from cable providers. By renting infrastructure to T-Mobile, Orange can better monetize its fiber investment, with the extra annual revenue potentially reaching PLN 176m according to our very rough estimates. The implied net present value of the future revenues would cover more than one-third of Orange's planned network CAPEX. We think other local telecoms without their own fixed-line infrastructure, specifically Play, with its "light asset" business model, may follow T-Mobile's example and buy access to Orange's network in the future (as an alternative, Play could opt to merge with a cable operator). Last but not least, a relationship with T-Mobile will give Orange Polska an upper hand over its main rival, Cyfrowy Polsat, which has just recently acquired outdated infrastructure in need of major capital investment.

According to Orange's press release announcing the negotiations with T-Mobile, "In the potential co-operation Orange Polska could offer wholesale access to broadband on fibre infrastructure for T-Mobile's clients in multi-family houses (without right for further wholesale resale) in deregulated areas. According to the main commercial assumptions T-Mobile will pay to Orange Polska: (1) an upfront fee covering access to multi-family houses with B2C, (2) broadband monthly fee per each active customer, and (3) an installation fee per connection of each broadband line. The negotiations are expected to end by 30 June 2018.

According to Orange, "Entering into wholesale co-operation will contribute to better monetization of Orange Polska investments in the fibre network, maximize usage of Orange Polska infrastructure and accelerate convergence of telecom services in the Polish market."

We have calculated the potential future revenues from T-Mobile's BSA agreement using the following assumptions:

- No cannibalization of Orange's retail sales via the FTTH network,
- A 60-40 network split between non-regulated and regulated areas in 2020,
- CAPEX to connect 5 million households via the FTTH network at PLN 4.6bn,
- Immediate achievement of the target penetration rate by T-Mobile (in actuality the telecom will need 3-4 years to reach target penetration),
- No one-time upfront fee.

Annual revenue projection (PLN m)

		T-Mobile penetration				
		7.5%	10.0%	12.5%	15.0%	17.5%
whole-sale rate	21.6	83	110	138	165	193
	24.6	94	125	157	188	220
	27.6	106	141	176	211	246
	30.6	117	156	195	234	273
	33.6	129	171	214	257	300

Source: Estimates by Dom Maklerski mBanku

NPV (r=11%, Beta=1.5, g=0%) (PLN m)

		T-Mobile penetration				
		7.5%	10.0%	12.5%	15.0%	17.5%
whole-sale rate	21.6	751	1,001	1,252	1,502	1,753
	24.6	855	1,141	1,426	1,711	1,996
	27.6	960	1,280	1,600	1,919	2,239
	30.6	1,064	1,419	1,773	2,128	2,483
	33.6	1,168	1,558	1,947	2,337	2,726

Source: Estimates by Dom Maklerski mBanku

NPV/CAPEX

		T-Mobile penetraiton				
		7.5%	10.0%	12.5%	15.0%	17.5%
whole-sale rate	21.6	16.4%	21.9%	27.4%	32.8%	38.3%
	24.6	18.7%	24.9%	31.2%	37.4%	43.6%
	27.6	21.0%	28.0%	35.0%	42.0%	48.9%
	30.6	23.3%	31.0%	38.8%	46.5%	54.3%
	33.6	25.5%	34.1%	42.6%	51.1%	59.6%

Source: Estimates by Dom Maklerski mBanku

List of abbreviations and ratios contained in the report.
EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
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