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## Telecommunications – LTE Auction May End In October

### TMT, Poland

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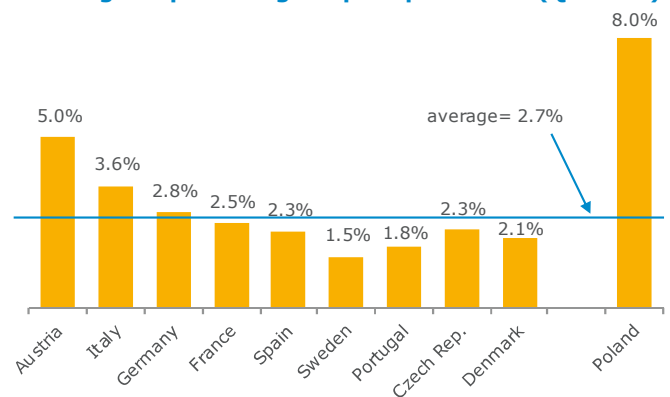
The Polish Ministry for Administration and Digitization has launched consultations on a plan to bring the LTE spectrum auction to an end. The Ministry's push for an end means that contrary to our expectations the auction will not be shut down and redone on new terms. As a result we have to change our expectations as to the auction's impact on Orange Polska in case of a win, with the CAPEX per 800 MHz band (of two we think the Telecom is bidding for) originally assumed at PLN 650m. Under the Ministry's proposal the auction will end on the 115th bidding day. We see two ways the bidding can end: (1) NetNet will probably stop bidding high (so as not to drive the price too high on behalf of Sferia which based on this price will have to pay for a 5Mhz license extension in 2018) and the others will pay ca. PLN 1.25bn per band, or (2) the spectrum will be allocated on the 115th day based on the final bids, with Orange's CAPEX per band coming in at ca. PLN 1.6bn. We give higher odds to the second scenario which can reduce our valuation of Orange Polska (OPL) by PLN 1.3 (with the target price at PLN 10.20, all other things being equal). With its net debt expected to be >2.0x at year-end 2015 Orange will probably cut dividends. Regardless we think OPL still has long-term upside potential. It is valued at 2015E EV/EBITDA of 4.7x, an attractive level given that it will get the 800 MHz band faster and as a result will have the widest reach. On the other hand note that the planned end of LTE auction has a negative impact on Cyfrowy Polsat which, once LTE frequencies are distributed between rivals, faces increased competition.

The Polish Ministry of Administration and Digitization yesterday proposed a solution on how to bring the LTE spectrum auction to a conclusion. If bidding does not end within 115 days the Ministry proposes that the regulator hold a final quick-fire bidding round on the 115th day with the participants submitting their final bids (at least equal to the last highest bid) in sealed envelopes. The Ministry wants to put the auction regulation into effect on 1 October. According to our calculations in the 115 days until around 5 October bidding for the LTE spectrum will reach PLN 1.53 billion per one 800 MHz band or EUR 0.96 per 1MHz per capita, making the Polish auction the most expensive one in the whole of Europe.

The Ministry realizes that the change of the auction terms while it is in progress will meet with much criticism from the industry. As we see it the implications are as follows::

- Operators who did speculative bidding to hike up the price will probably stop before the 115th day (e.g. NetNet on behalf of Sferia)
- The final 115th-day bids are not likely to be higher than the highest bid from the day before
- Orange Polska may have to pay PLN 3.2bn for two 800 MHz bands, implying a net debt/EBITDA ratio of >2.0x persisting for more than a year, and hence lower dividend next year.
- With the spectrum won in the auction Orange will be able to offer LTE mobile Internet in rural areas still this year, thus curbing ADSL customer defections to Cyfrowy Polsat
- After the auction Orange will be able to deliver its broad service mix to B2B and B2C customers in urban as well as rural areas.
- OPL is valued at a marked discount to CPS (4.7x 2015E EBITDA after the auction vs. 7.0x CPS) which we consider unjustified. In our view Cyfrowy will have a hard time expanding its customer base after rivals like Play, T-Mobile, and Orange also gain the capacity to offer mobile Internet in rural areas.

### Per-capita price\* of 1 MHz of bandwidth in the 800 MHz range as percentage of post-paid ARPU (Q1 2015)



Source: Dom Maklerski mBanku, \* Assuming a cost of one 800 MHz band of PLN 1.5bn

## 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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