



Wednesday, November 16, 2016 | update

# Orange Polska: buy (reiterated)

OPL PW; OPL.WA | Telecommunications, Poland

## The Underrated Value of Fiber

Orange Polska is expected to generate free cash flow of an estimated PLN 620m in 2016, implying FCF yield of 8.4%, only slightly higher than the cost of equity, estimated at 7.4%. What this type of comparison ignores, however, are two very important things: the potential returns that Orange can generate on the investment in fiber-optic network expansion, and the fact that the FTTH expenditures will decrease after 2018. According to our base-case prediction, by 2018 Orange will have connected 3.5 million homes via the new infrastructure, and within five years it will increase its penetration rate to 25%. Further, we expect the new infrastructure to generate revenue of about PLN 200m in 2018, and drive earnings in subsequent years. After 2018, we assume Orange's annual CAPEX will decrease to PLN 1.5bn, while FCF after interest will reach PLN 1.2bn, implying FCF yield of 17.5%. With these metrics, Orange should be able to resume dividend payouts of PLN 0.50 per share. Further, even if our assumed rate of customer acquisition proves overly optimistic, Orange can monetize the FTTH by offering bitstream access at attractive prices to the competition (none of the other three top players own B2C networks). In the worst-case scenario, Orange may be made to spin the infrastructure business off into a separate entity, similarly to the Czech O2's spin-off into a separate wholesale infrastructure provider Cetin in 2015. Finally, it is worth noting that Orange can easily boost its balance-sheet position by factoring receivables for mobile devices (PLN +800m expected in Q1'17), selling real estate (PLN +580m over three years), and scaling back other capital expenditures (as evidenced by CAPEX reduction from PLN 1.7bn to 1.4bn already in 2016). After adjusting our financial outlook, we set our new price target for OPL at PLN 7.00 per share, and we maintain a buy rating for the stock.

## Why is FTTH certain to succeed?

Orange picked a winning strategy with the FTTH rollout in our view given that afterwards it will be the only telecom in Poland to offer a full range of fixed-line and mobile services, generating huge cross-sell potential (Orange has a 29% market share in mobile services but only 25% of its mobile customers use its other services). Further, fiber optic technology is considered superior in speed and data transfer, and an FTTH network is more cost- and energy-efficient and cheaper to expand and maintain than CATV. Top world telecoms that have deployed FTTH, e.g. Verizon, estimate that by switching from copper to fiber they can cut OPEX by up to 70%.

## Other CAPEX set to fall

Already in Q3 2016, Orange reduced its non-FTTH CAPEX by more than 20% compared to the same period last year, and we believe the 2016 yearly other CAPEX will decrease to PLN 1.39bn from PLN 1.69bn in 2015. Further, it looks like the actual total FTTH costs will be much lower than the original estimates, with the 2016 ytd average cost per household at just PLN 611 compared to the PLN 765 budgeted through 2018, a difference of over 20%. Similarly, our 2017-2018 FTTH CAPEX forecast is 10% lower than Orange's guidance.

(PLN m)	2014	2015	2016E	2017E	2018E
Revenue	12,191	11,840	11,396	11,179	11,163
EBITDA	3 880	3 431	3 155	2 941	2 944
EBITDA margin	31.83%	28.98%	27.69%	26.30%	26.38%
EBIT	791	572	439	367	508
Net income	340	254	68	45	176
DPS	0.5	0.5	0.25	0.25	0.25
P/E	20.2	27.0	101.1	151.1	39.0
P/CE	2.0	2.2	2.5	2.6	2.6
P/B	0.6	0.6	0.6	0.6	0.6
EV/EBITDA	2.8	3.2	4.4	4.5	4.4
DYield	9.6%	9.6%	4.8%	4.8%	4.8%

Current Price	PLN 5.23
Target Price	PLN 7.00
MCap	PLN 6,862m
Free Float	PLN 3,385m
ADTV (3M)	PLN 23.09m

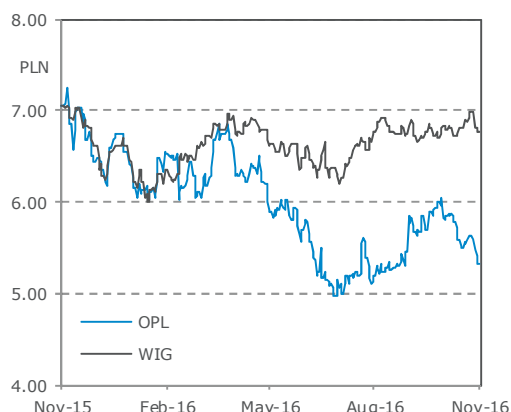
## Ownership

Orange S.A. (f. France Telecom S.A.)	50.67%
Others	49.33%

## Business Profile

Orange Polska is the leader in the Polish market for telecommunications services. It had over 23 million customers at the end of 2014, and in 2015 its mobile and fixed-line market shares (in customer numbers) were 27% and 52%, respectively. In addition, Orange controls 30% of the Polish broadband Internet. Finally, Orange is the owner of the most extensive telecommunications infrastructure in Poland.

## OPL vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Orange Polska	7.00	8.05	buy	buy

Company	Current Price	Target Price	Upside
	5.23	7.00	+33.8%

Forecast change since last revision	2016E	2017E	2018E
Revenue	-0.8%	-0.8%	-0.8%
EBITDA	-6.5%	-10.3%	-10.4%
Net profit	-72.7%	-84.5%	-57.3%

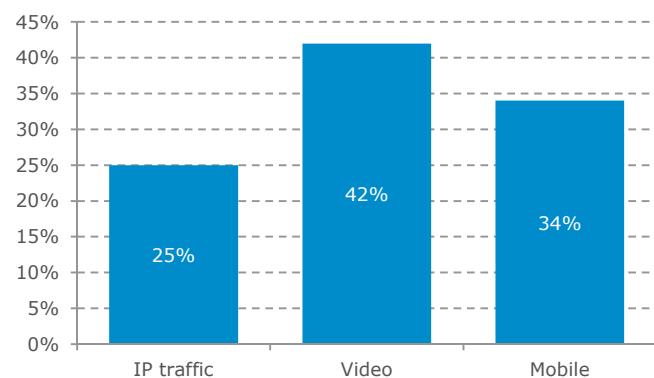
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## The Case for Fiber

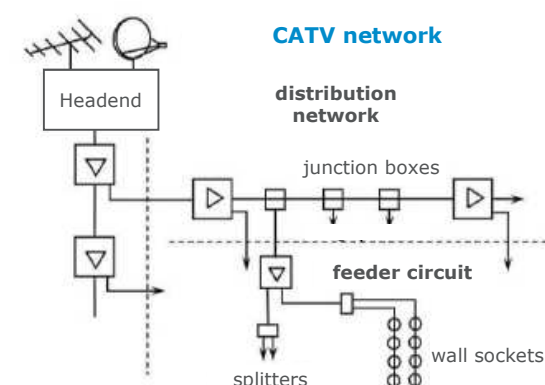
Demand for fiber optic network infrastructure grows in line with increasing internet traffic. According to the Cisco Visual Networking Index Forecast for 2015-2020, global IP traffic will triple by 2020 at an average annual growth rate of 22%, and in Poland the growth will be even faster at 25% per year. Mobile data traffic will increase six-fold over five years according to Cisco, at 42% on average per year, and Internet video traffic will quadruple after rising at an annual rate of 34%, with total business and consumer video traffic accounting for 70% of the total Internet traffic by 2020 compared to 49% in 2015. In Poland, there will be a projected 212.7 million devices connected to the Internet by 2020 (up from z 125.5 million in 2015), with the number of devices per capita at an estimated 5.5, and machine-to-machine connections accounting for 42% of all connected devices.

### 2015-2020 Web traffic growth projection for Poland (CAGR)



Source: Cisco

### Expansion of a cable vs. a fiber-optic network

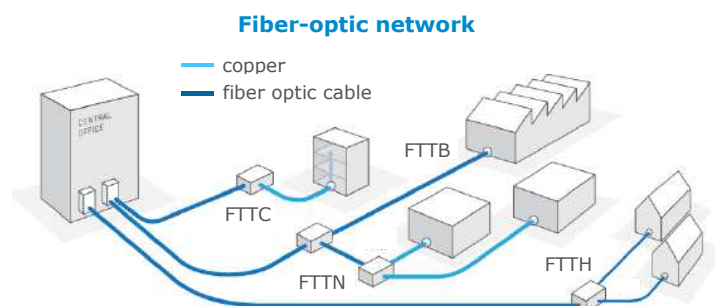


#### Expensive expansion:

- more cable
- additional optical nodes

#### Replacement:

- transmitters
- amplifiers
- splitters
- modems
- coaxial cables



#### Cheap and easy upgrade:

- transmitters
- terminators

Source: Orange Polska

## Convergent Services

Orange's network expansion plan targets mainly big cities where the broadband market is dominated by cable providers – currently the Telecom has a 16% market share in the top ten biggest cities compared to 33% held by the leading cable operator. Orange hopes to recoup the metropolitan market share with the help of a marketing campaign targeted at cable subscribers, encouraging them to switch to fiber. We think the campaign has potential to succeed given Orange's unique ability to offer a full range of fixed-line and mobile services.

### Orange Polska service range vs. competition

	Fixed Line			Mobile	
	TV	Internet	Voice	Internet	Voice
Orange Polska	x	x	x	x	x
T-Mobile			x	x	x
Play				x	x
Cyfrowy Polsat	x			x	x
Netia	x	x	x		
Vectra	x	x	x		
Multimedia	x	x	x		
UPC	x	x	x		
nC+	x				

Source: Office for Electronic Communications

If we compare Orange's service plans to those offered by the top cable player UPC, at PLN 101.95 on average per month for 100 Mbps fixed-line broadband plus TV and mobile, the Orange plans are much cheaper than the PLN 109 monthly rate offered by its cable rival for a plan which includes more TV channels but does not include mobile services.

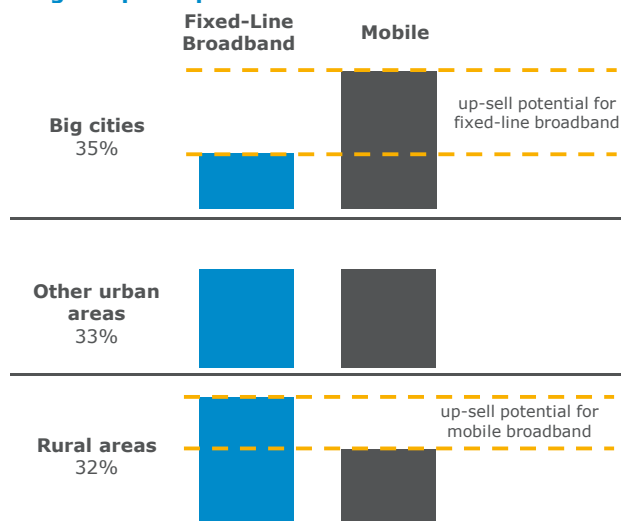
### Orange Polska vs. UPC TV/broadband bundle comparison

	UPC	Orange Polska
Average monthly cost	PLN 109.00	PLN 101.95
Speed	120 Mbps	100 Mbps
TV channels	102 (47 HD)	91 (25 HD)
Other Services	Streaming TV, VoD movies/TV shows	Unlimited mobile calls, unlimited fixed-line calls to EU/US

Source: Orange Polska, UPC, Dom Maklerski mBanku

Aside from competitively-priced service plans, Orange is well-positioned to capitalize on up-sell opportunities with a 29% market share in mobile and only just about 25% of the mobile customers using more than one service. Moreover, Orange wants to migrate its customers in rural areas from legacy ADSL networks to mobile broadband.

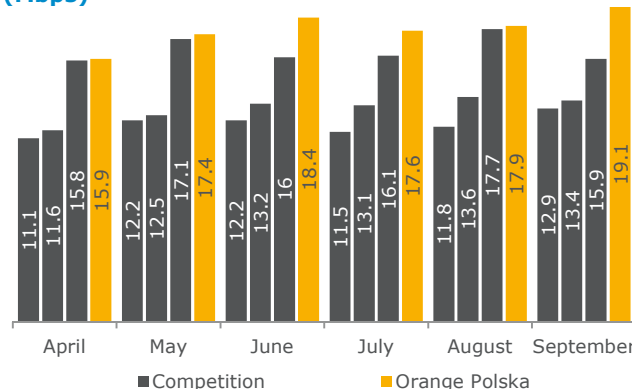
### Orange's up-sell potential in urban and rural areas



Source: Dom Maklerski mBanku

Orange Polska's advantage over cable providers, aside from better prices, is also based in a superior technology, offering better and faster connectivity via fiber-to-the-home and the 800 MHz LTE frequency bands won in last year's spectrum auction.

### Download speeds: Orange Polska vs. rival telecoms (Mbps)



Source: www.speedtest.pl, Dom Maklerski mBanku

## New CEO

Orange Polska's new CEO Mr. Jean Francois Fallacher shared the following insight as regards the FTTH network project during a recent conversation:

- Orange is keen to cooperate with other telecoms in building FTTH coverage so as to minimize areas of overlap.
- Orange believes in FTTH expansion in Poland, but until the technology starts to return measurable results, the Company will satisfy its cash needs from (1) receivables factoring and good working capital management, (2) sales of noncore assets, and (3) sales of cell towers.
- The main obstacles to quick network monetization include low consumer awareness as regards the advantages of FTTH connections, and Orange's weak positioning as a fixed-line broadband provider in big urban markets. Orange maintains its market penetration target for the new network at 30%, however it is aware the target will take a long time to reach.

In our opinion, the investment in FTTH will pay off in the long term, but in the short term it understandably raises concerns among investors due to its high cost while subscriber acquisition remains relatively slow.

## FTTH Partnerships

In order to reach the 30% target penetration target for the planned new FTTH network in six years (we assume 25% in five years), Orange Polska has to successfully compete not only against cable providers, but also against rival telecoms like Netia, which has recently announced a plan is to connect 2.6 million households by 2020 in areas which, we believe, may have substantial overlap with Orange's. That is why we welcomed the recent reports that the two telecoms are planning to join forces in building FTTH coverage, as this would mean lower costs for both (though at the expense of future free cash flow), combined with less aggressive rivalry. Note that both Orange's CEO Mr. Fallacher and Netia's CEO Mr. Tomasz Szopa have publicly declared an openness to cooperating with others in building FTTH coverage.

### Target reach of Netia after network upgrades

(thousand households)	2016				2020
	total	0-30 Mbps	30-100 Mbps	100+ Mbps	
Copper	1,408	753	655	0	PSTN only
FTTB - ETTH	592	350	0	242	592
FTTH - PON	165	0	0	165	1,573
CATV	385	0	0	385	385
<b>Total</b>	<b>2,550</b>	<b>1103</b>	<b>655</b>	<b>792</b>	<b>2,550</b>
		~56% (NGA > 30 Mbps)			~100% (NGA > 100+ Mbps)

Source: Netia, Dom Maklerski mBanku

The groundwork for a closer cooperation between Orange Polska and Netia was laid in July 2016 when Orange signed an agreement with Netia's wholly-owned subsidiary Telefonía Dialog for commercial access to Dialog's local loop fiber infrastructure on an arm's length basis. The agreement gives Orange access to 114 thousand households. A LLU-based cooperation helps avoid inefficient duplication of network resources and unnecessary expenses. Netia has had so little success so far with LLU access, but note that the access it offers is not to FTTH infrastructure, but to older-generation networks, hence the loss of urban market share to cable providers – the same issue as experienced by Orange. It is also important to note that Orange Polska can offer a wide range of B2C services, so even if it cannot achieve high margins on LLU-based broadband it can up-sell mobile services to its internet customers.

## Regulatory Support

The European Union wants all EU households to have access to broadband speeds of at least 100 Mbps by 2025. To this end, member states are encouraged to invest in high-speed networks. As an incentive to partner with rivals in the infrastructure projects, the EU plans to relax the network sharing requirements for national incumbents. Regulatory changes to this effect are already being implemented in Poland, as reflected in a June proposal to add 225 districts (including the biggest municipalities) to the original 26 to the list of areas where LLU access is to be deregulated. This means that Orange will not have to share its new infrastructure with rivals, thus giving them

motivation to invest in their own networks. With access to incumbent infrastructure no longer a given, this is an incentive for Netia to maintain a mutually-beneficial relationship with Orange. On a related note, Marcin Cichy, the new Head of Poland's telecoms regulator, the Office for Electronic Communications (UKE), said after his appointment that one of his main objectives would be to stem the downturn in retail market services which, according to him, is driven by low broadband penetration due to an insufficient and inefficient infrastructure.

## Is the UPC-Multimedia Cable Merger a Threat To Orange Polska?

In October 2016, UPC, Poland's biggest cable provider, reaching nearly 3.1 million households, and providing 2.9 million services to a subscriber base of over 1.4 million, agreed to acquire the third-largest cable operator Multimedia, passing 1.6 million homes via its mostly-HFC network, and delivering 1.4 million services to over 832,000 subscribers. The merger creates a cable operator reaching nearly half of all households in cities with >20,000 population, with a subscriber base of 2.2 million.

The cable merger may have raised doubt in the minds of investors about the infrastructure expansion plans of Orange Polska, but it did not hurt Orange's value which does not yet price in the potential returns on the FTTH network. What is more, we think a merger between two cable giants threatens mostly their smaller cable competition, and it has less of an impact on Orange, which is able to offer superior FTTH technology and the broadest portfolio of services on the market targeted at individuals. Further, the long-term effects of the Polish cable industry consolidation will actually be positive for other TV and broadband providers as a reduced number of players (today there are about 500 cable providers in Poland, of which five have market shares greater than 4%) should result in less price competition.

### UPC & Multimedia in numbers

	UPC	Multimedia
Reach (million households)	3.1	1.6
Subscribers (millions)	1.4	0.8
RGUs (millions)	2.9	1.4
RGUs per subscriber	2.1	1.7
Penetration rate	45%	52%

Source: UPC, Multimedia

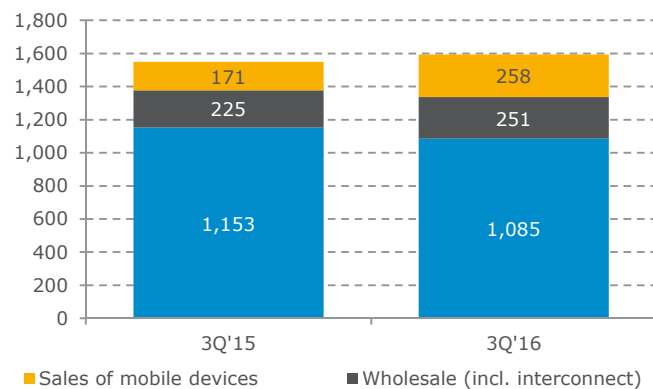
## Near-Term Risks Abate

In an interview on November 2nd, Poland's Digitization Minister Anna Streżyńska dispelled the two main risks that to date had weighed on telecom stocks, including Orange Polska: (1) the rumored plans to impose a special tax on telecommunications operators, and (2) the speculation about another potentially capital-intensive frequency auction. According to Minister Streżyńska, there are plans to allocate 700 MHz frequencies, but not until 2022, unless telecoms express a desire to get them earlier.

## 2016 Third-Quarter Results

Orange Polska delivered Q3 2016 results in line with our expectations and the market consensus. Mobile revenue showed a year-over-year rebound of 2.9% at PLN 1,594m, driven by 11.6% higher sales of wholesale services (with the aggregate average usage per user in minutes up 4.2% y/y) and a 51% jump in revenue from mobile devices, owed to a further shift toward installment plans).

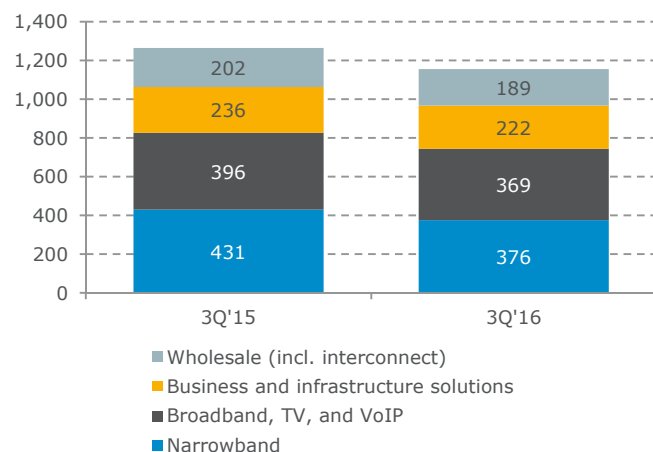
### Q3 2016 vs. Q3 2015 mobile revenue breakdown (PLN m)



Source: Orange Polska

In turn, fixed revenue posted a year-over-year drop of 8.9%, led by a severe, 12.8% slump in narrowband revenue, combined with a 6% decrease in retail fixed voice lines and 4% contraction in ARPU. In the wake of price discounts offered on the fixed broadband service 'Neostrada,' revenue from fixed broadband fell 6.8% from Q3 2015.

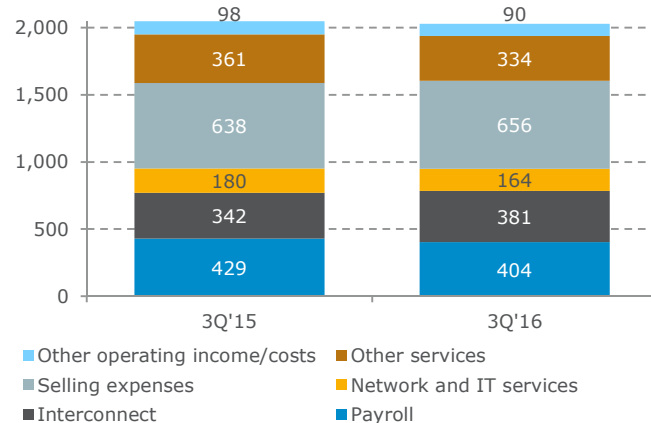
### Q3 2016 vs. Q3 2015 fixed-line revenue breakdown (PLN m)



Source: Orange Polska

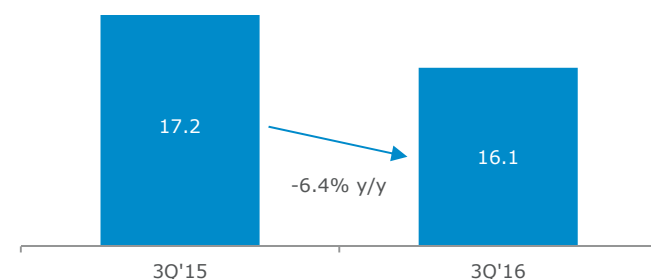
Orange managed to slightly reduce costs in Q3 2016 relative to the same period in 2015, with a cut in payroll costs to PLN 404m (from PLN 429m posted in the same period last year and PLN 440m booked in the previous quarter) offset by higher selling expenses, driven by aggressive customer acquisition and higher interconnect costs.

### Q3 2016 vs. Q3 2016 cost breakdown (PLN m)



Source: Orange Polska

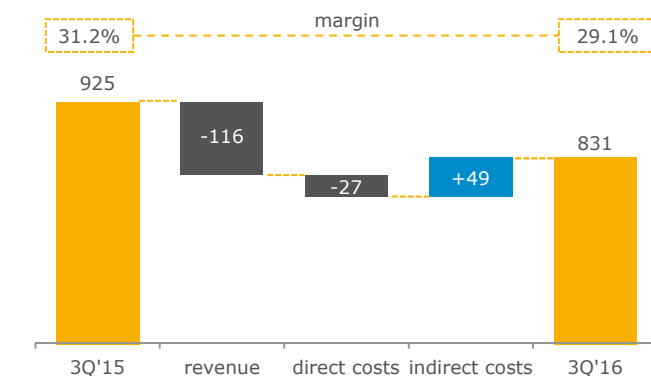
### YoY change in headcount (thousands of FTEs)



Source: Orange Polska

Asset divestment fetched only a small, PLN 9m profit in Q3. At PLN 831m, the third-quarter EBITDA was 11% lower than in Q3 2015, with the EBITDA margin narrowed by 1.3ppts. Orange stands by its 2016 full-year leverage and EBITDA targets.

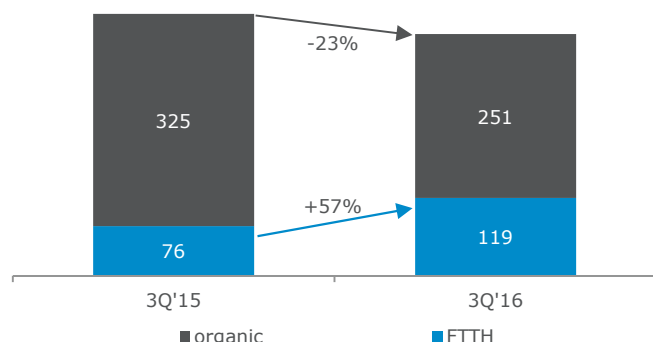
### Breakdown of Q3 2016 EBITDA (PLN m)



Source: Orange Polska

Adjusted FCF amounted to PLN 169m in Q3 2016 after falling from PLN 305m in Q3 2015 due to lower CFO, impacted by lower EBITDA, combined with PLN 76m higher capital investment outflows. With that said, note that, adjusted for LTE spectrum payments, the third-quarter CAPEX at PLN 370m was lower than the Q3 2015 CAPEX of PLN 401m. After further adjustment for respective FTTH expenditures of PLN 119m and PLN 76m, the quarterly CAPEX shows a 23% year-over-year decrease from PLN 331m to PLN 251m.

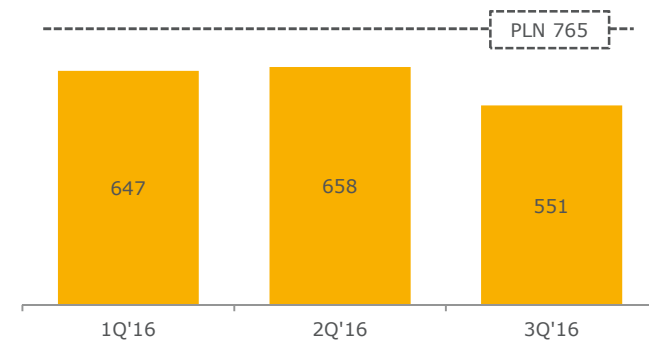
### YoY change in CAPEX (PLN m)



Source: Orange Polska, Dom Maklerski mBanku

It is worth mentioning the lower-than-budgeted average connection costs per household that Orange Polska is incurring this year. Compared to the PLN 600m allocated this year toward the connection of 784,000 households, implying CAPEX per household of PLN 765, the actual expenditures in the first three quarters of 2016 were much lower.

### Planned vs. actual quarterly CAPEX per household



Source: Orange Polska, Dom Maklerski mBanku

Orange Polska reported solid KPIs for Q3 2016: the number of mobile customers increased by 309,000 (prepaid users decreased by 600,000 after a SIM card registration requirement entered into force in Poland in July), and net additions of convergent customers (+38k) were higher than in Q2 (+33k). In fixed-line broadband, net defections at just 10k were the lowest in many quarters, owing to a large number of customers activating VDSL + FTTH, i.e. +44k, and fewer ADSL line losses.

### Overview of Q3 2016 results

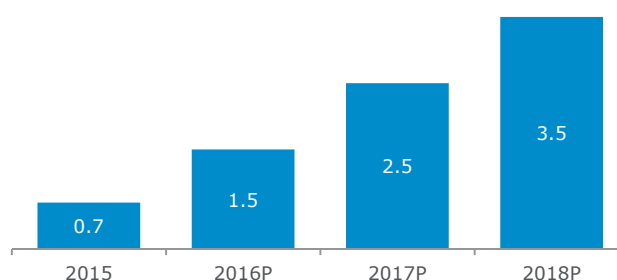
(PLN m)	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16
Mobile revenue	1501.0	1523.0	1549.0	1546.0	1526.0	1622.0	1594.0
Fixed revenue	1306.0	1290.0	1265.0	1230.0	1192.0	1175.0	1156.0
Other revenue	118.0	195.0	153.0	150.0	85.0	106.0	101.0
Total revenue	2925.0	3008.0	2967.0	2926.0	2803.0	2903.0	2851.0
Y/Y	-2.0%	-3.0%	-3.0%	-5.0%	-4.0%	-4.0%	-4.0%
Payroll	-427.0	-453.0	-429.0	-396.0	-381.0	-440.0	-404.0
Services, of which:	-1474.0	-1561.0	-1521.0	-1709.0	-1476.0	-1580.0	-1535.0
- Interconnect	-321.0	-333.0	-342.0	-349.0	-354.0	-384.0	-381.0
- Network and IT	-176.0	-181.0	-180.0	-197.0	-160.0	-168.0	-164.0
- Selling expenses	-644.0	-663.0	-638.0	-801.0	-615.0	-685.0	-656.0
- Other services	-333.0	-384.0	-361.0	-362.0	-347.0	-343.0	-334.0
Other operating income/expenses	-69.0	-78.0	-98.0	-122.0	-88.0	-96.0	-90.0
Severance benefits	-1.0			-128.0			
Asset divestiture	5.0	43.0	10.0	13.0	10.0	37.0	9.0
EBITDA	959.0	959.0	929.0	584.0	868.0	824.0	831.0
margin	32.8%	31.9%	31.3%	20.0%	31.0%	28.4%	29.1%
EBITDA (adjusted)	960.0	959.0	925.0	673.0	868.0	824.0	831.0
margin	32.8%	31.9%	31.2%	23.0%	31.0%	28.4%	29.1%
D&A	-710.0	-733.0	-716.0	-712.0	-653.0	-683.0	-695.0
Charges/Reversals	-3.0	6.0	-1.0	10.0		1.0	1.0
EBIT	246.0	232.0	212.0	-118.0	215.0	142.0	137.0
margin	8.4%	7.7%	7.1%	-4.0%	7.7%	4.9%	4.8%
Net financing costs	-58.0	-76.0	-76.0	-81.0	-96.0	-96.0	-79.0
Tax	-17.0	-30.0	-26.0	46.0	-21.0	-29.0	-21.0
Net profit	171.0	126.0	110.0	-153.0	98.0	17.0	37.0

Source: Orange Polska, Dom Maklerski mBanku

## FTTH Project

In its Action Plan 2016-2018, announced toward the end of 2015, Orange Polska said it was going to accelerate investment in fiber-optic infrastructure so as to have 3.5 million households within its reach by 2018. The total cost of the FTTH project is estimated at PLN 2.1 billion, i.e. about PLN 750 per household.

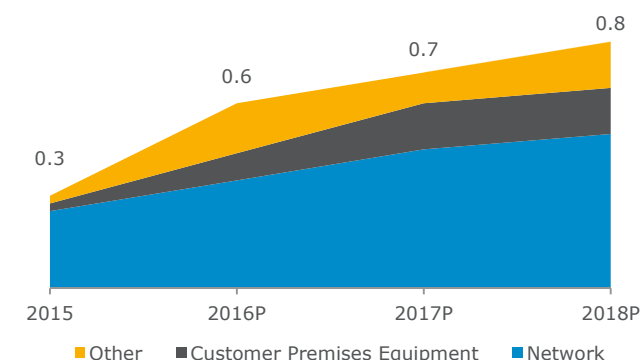
### FTTH homes passed target (millions)



Source: Orange Polska



### FTTH CAPEX (PLN bn)



Source: Orange Polska

Further, Orange Polska wants to achieve a market penetration rate of 30% in six years, though our more conservative assumption is for a 25% target penetration rate in five years.

### FTTH user growth projection

Quarter	growth
Quarter 1.	0% x 25%
Quarter 2.	5% x 25%
(...)	+5% per quarter x 25%
Quarter 17	85% x 25%
Quarter 18	90% x 25%
Quarter 19	95% x 25%
Quarter 20	100% x 25%
Quarter 21	100% x 25%

Source: Dom Maklerski mBanku

We assume that about 75% of the FTTH connections acquired through 2018 will be new users (rather than existing users migrated from xDSL). The initial ARPU at a projected PLN 67.2 is about 5% lower than the ARPU for cable providers and about 11% higher than Orange's current broadband ARPU, and it is expected to grow in subsequent years, driven mainly by up-sell and cross-sell to existing customers. Taking the CAPEX budget set in the Action Plan, assuming 10% revenue growth in later years, we put the internal rate of return for the FTTH project at 11.9%, with the estimated per-share NPV at PLN 0.69.

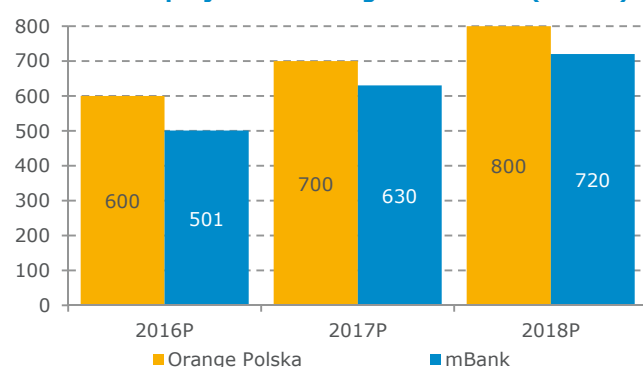
### NPV and IRR projection for the FTTH project at Orange's CAPEX estimate

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FTTH subscribers (2015=0)	62.0	155.0	299.0	473.0	632.0	756.0	838.0	869.0	869.0	869.0
ARPU	67.2	68.8	71.2	73.4	75.2	77.1	78.7	80.3	81.9	83.5
Revenue (PLN m)	31.7	89.6	194.1	339.9	498.5	642.4	752.8	822.0	853.9	871.0
EBITDA (PLN m)	14.3	40.3	87.4	152.9	224.3	289.1	338.8	369.9	384.3	391.9
margin	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
CAPEX	-600.0	-700.0	-800.0	-34.0	-50.0	-64.0	-75.0	-82.0	-85.0	-87.0
FCF	-586.0	-660.0	-713.0	119.0	174.0	225.0	263.0	288.0	299.0	305.0
discount rate	99%	91%	84%	77%	71%	66%	60%	56%	51%	47%
PV FCF	-578.0	-600.0	-597.0	92.0	124.0	147.0	159.0	160.0	153.0	144.0
NPV	904.0									
IRR	11.9%									

Source: Dom Maklerski mBanku

Based on the fact that the actual average FTTH CAPEX per household in the first three quarters of 2016 was much lower than the PLN 765 budgeted by Orange, we made an IRR and NPV calculation where we lowered the expected annual CAPEX by 16% to PLN 501m in 2016 (vs. PLN 600m guidance) and by 10% each in 2017 and 2018. After applying this correction, we arrived at an NPV of PLN 0.86 per share and an IRR of 13.3% for the FTTH project.

### FTTH CAPEX projection: Orange vs. mBank (PLN m)



Source: Orange Polska, Dom Maklerski mBanku

### NPV and IRR projection for the FTTH project using our CAPEX estimate

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FTTH subscribers (2015=0)	62.0	155.0	299.0	473.0	632.0	756.0	838.0	869.0	869.0	869.0
ARPU	67.2	68.8	71.2	73.4	75.2	77.1	78.7	80.3	81.9	83.5
Revenue (PLN m)	31.7	89.6	194.1	339.9	498.5	642.4	752.8	822.0	853.9	871.0
EBITDA (PLN m)	14.3	40.3	87.4	152.9	224.3	289.1	338.8	369.9	384.3	391.9
margin	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
CAPEX	-501.0	-630.0	-720.0	-34.0	-50.0	-64.0	-75.0	-82.0	-85.0	-87.0
FCF	-487.0	-590.0	-633.0	119.0	174.0	225.0	263.0	288.0	299.0	305.0
discount rate	99%	91%	84%	77%	71%	66%	60%	56%	51%	47%
PV FCF	-480.0	-536.0	-530.0	92.0	124.0	147.0	159.0	160.0	153.0	144.0
NPV	1132.0									
IRR	13.3%									

Source: Dom Maklerski mBanku

### NPV and IRR projection for the FTTH project assuming constant ARPU

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FTTH subscribers (2015=0)	61.7	155.4	299.2	472.7	631.9	756.4	837.6	868.9	868.9	868.9
ARPU	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2
Revenue (PLN m)	31.7	87.5	183.2	311.1	445.2	559.5	642.4	687.7	700.3	700.3
EBITDA (PLN m)	14.3	39.4	82.4	140.0	200.3	251.8	289.1	309.5	315.2	315.2
margin	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
CAPEX	-501.0	-630.0	-720.0	-31.1	-44.5	-55.9	-64.2	-68.8	-70.0	-70.0
FCF	-486.7	-590.6	-637.6	108.9	155.8	195.8	224.8	240.7	245.1	245.1
discount rate	99%	91%	84%	77%	71%	66%	60%	56%	51%	47%
PV FCF	-479.9	-536.8	-534.0	84.1	110.9	128.4	135.9	134.1	125.8	116.0
NPV	648.9									
IRR	11.4%									

Source: Dom Maklerski mBanku

### NPV and IRR projection for the FTTH project assuming ARPU contraction at 2% CAGR through 2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FTTH subscribers (2015=0)	61.7	155.4	299.2	472.7	631.9	756.4	837.6	868.9	868.9	868.9
ARPU	67.2	65.8	64.5	63.2	62.0	60.7	59.5	58.3	57.1	56.0
Revenue (PLN m)	31.7	85.7	176.0	292.8	410.6	505.7	569.1	597.0	595.8	583.9
EBITDA (PLN m)	14.3	38.6	79.2	131.8	184.8	227.6	256.1	268.7	268.1	262.8
margin	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
CAPEX	-501.0	-630.0	-720.0	-29.3	-41.1	-50.6	-56.9	-59.7	-59.6	-58.4
FCF	-486.7	-591.4	-640.8	102.5	143.7	177.0	199.2	209.0	208.5	204.4
discount rate	99%	91%	84%	77%	71%	66%	60%	56%	51%	47%
PV FCF	-479.9	-537.5	-536.7	79.1	102.3	116.1	120.4	116.4	107.1	96.7
NPV	321.5									
IRR	10.0%									

Source: Dom Maklerski mBanku

### NPV and IRR projection for the FTTH project assuming lower EBITDA margins

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FTTH subscribers (2015=0)	61.7	155.4	299.2	472.7	631.9	756.4	837.6	868.9	868.9	868.9
ARPU	67.2	68.8	71.2	73.4	75.2	77.1	78.7	80.3	81.9	83.5
Revenue (PLN m)	31.7	89.6	194.1	339.9	498.5	642.4	752.8	822.0	853.9	871.0
EBITDA (PLN m)	11.1	31.4	67.9	119.0	174.5	224.8	263.5	287.7	298.9	304.8
margin	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
CAPEX	-501.0	-630.0	-720.0	-34.0	-49.8	-64.2	-75.3	-82.2	-85.4	-87.1
FCF	-489.9	-598.6	-652.1	85.0	124.6	160.6	188.2	205.5	213.5	217.7
discount rate	99%	91%	84%	77%	71%	66%	60%	56%	51%	47%
PV FCF	-483.1	-544.0	-546.2	65.6	88.7	105.3	113.7	114.5	109.6	103.0
NPV	339.3									
IRR	10.0%									

Source: Dom Maklerski mBanku

In Q3 2016 Orange reported accelerated customer take-up over fiber, adding 18,000 new lines (vs. 12,000 in Q2) to make a total of 57,000 households connected at the end of the quarter. Relative to a total number of connectable households of 1,227,000, this implies a penetration rate of 4.6%. This is a good result in our view, and it agrees with our prediction that Orange can steadily grow its FTTH

customer base to a target 25% over five years. Note that the 18k net customer additions made in Q3 2016 were significantly more than the 13k Orange could reasonably have been expected to make.

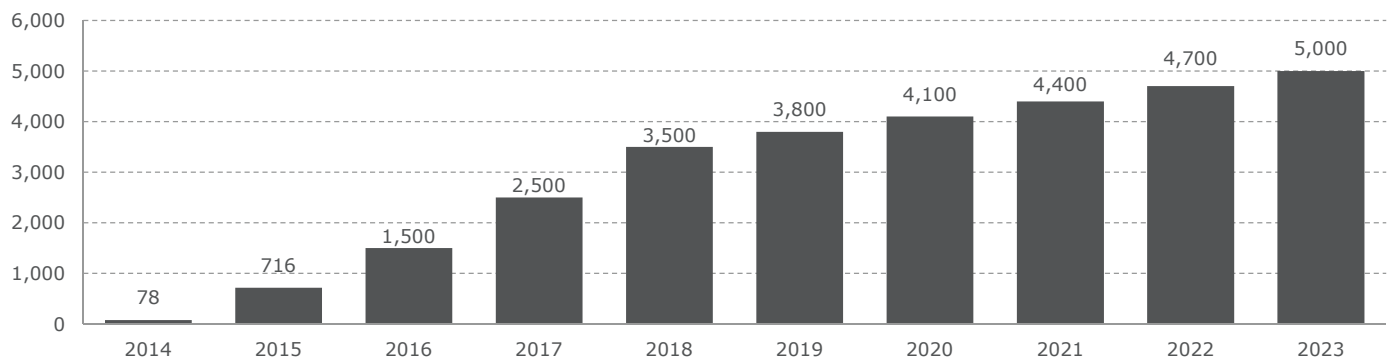


### Quarterly FTTH customer additions

		1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16
Connectable households (thousands)	0.0	18.0	38.0	58.0	78.0	106.0	193.0	398.0	716.0	818.0	1011.0	1227.0
Target penetration rate		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Cumulative household additions (thousands)	0.0	4.5	9.5	10	10	12	28.8	73.1	130.8	105	73.8	102.3
Quarterly household additions (thousands)		4.5	5.0	5.0	5.0	7.0	21.8	51.3	79.5	25.5	48.3	54.0
			0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
				0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
					0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
						0.25	0.25	0.25	0.25	0.25	0.25	0.25
							0.35	0.35	0.35	0.35	0.35	0.35
								1.09	1.09	1.09	1.09	1.09
									2.56	2.56	2.56	2.56
										3.98	3.98	3.98
											1.28	1.28
												2.41
Implied net additions (thousands)		0.00	0.23	0.48	0.73	0.98	1.33	2.41	4.98	8.95	10.23	12.64
Actual net additions (thousands)										10.00	12.00	18.00
difference										1.10	1.80	5.40

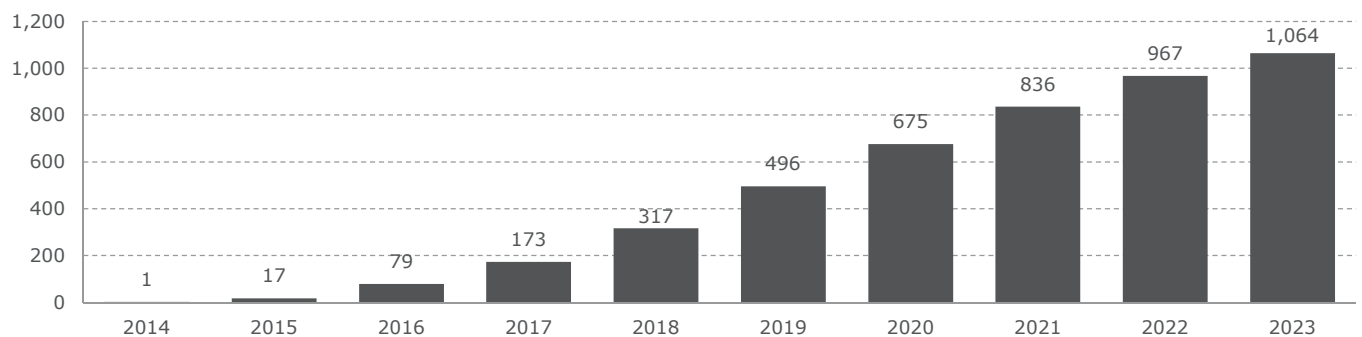
Source: Dom Maklerski mBanku

### Projection of Orange Polska FTTH network reach (thousands of homes passed)



Source: Dom Maklerski mBanku

### FTTH subscriber base projections (thousands)

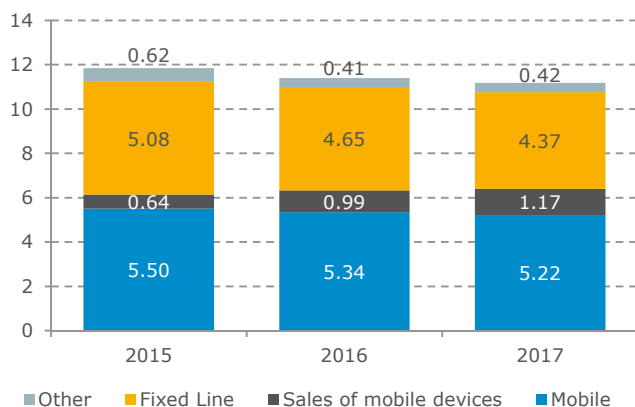


Source: Dom Maklerski mBanku

## Earnings Outlook

We expect Orange Polska to post a 1.9% decline in revenue in 2017.

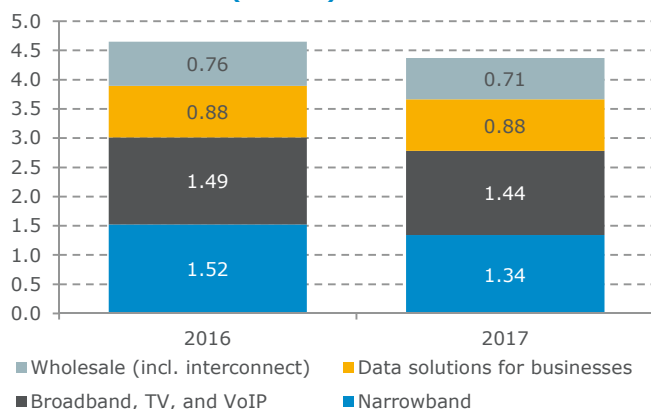
### Orange Polska revenues (PLN bn)



Source: Orange Polska, Dom Maklerski mBanku

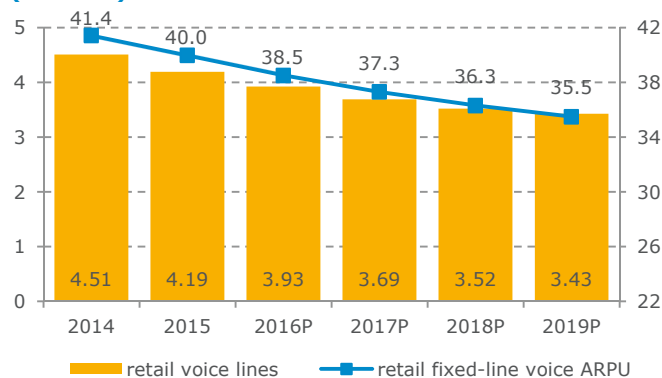
The revenue contraction next year will be led mainly by Fixed Line, in particular narrowband services. Moreover, in the years ahead, Orange is likely to post continued declines in fixed-line voice ARPU and in POTS, ISDN, and WLL connections (the simultaneous uptrend in VoIP users will be too slow to offset the slowdown).

### Fixed-line revenue (PLN bn)



Source: Dom Maklerski mBanku

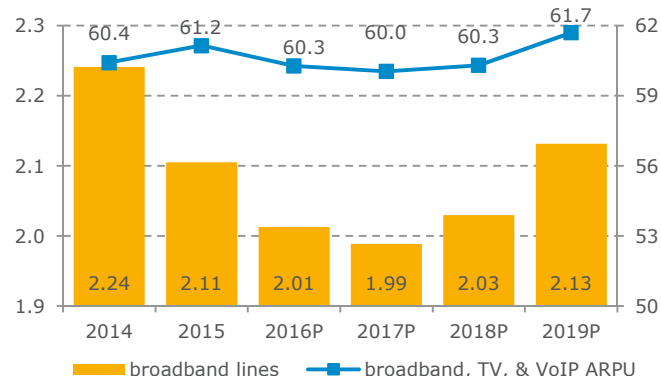
### Retail fixed-line voice ARPU (PLN) vs. connections (millions)



Source: Dom Maklerski mBanku

We believe that by investing in FTTH infrastructure Orange can start generating increasing ARPU from broadband, TV, and VoIP from 2019 onward. Until then, ARPU will remain under pressure from price discounts offered on the DSL service "Neostrada."

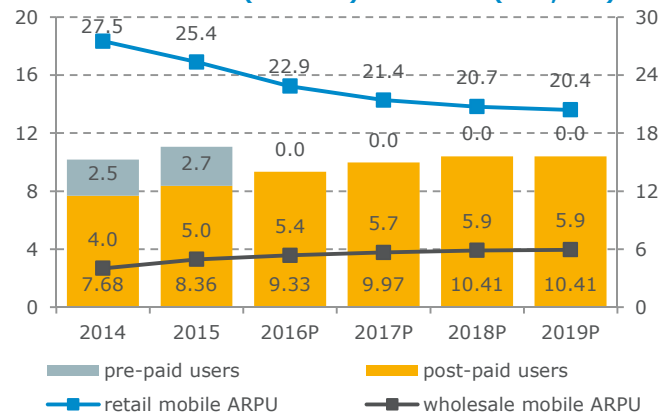
### Broadband ARPU (PLN) vs. broadband connections (millions)



Source: Dom Maklerski mBanku

In Mobile, we anticipate stable 2017 revenue of an estimated PLN 6,368m. A continued erosion in retail ARPU should be offset by rising wholesale ARPU. We predict that, thanks to a customer shift from prepaid to postpaid, accompanied by strong sales of mobile broadband, the postpaid subscriber base will increase by more than 630,000 in 2017 and 430,000+ in 2018, followed by stabilization in subsequent years.

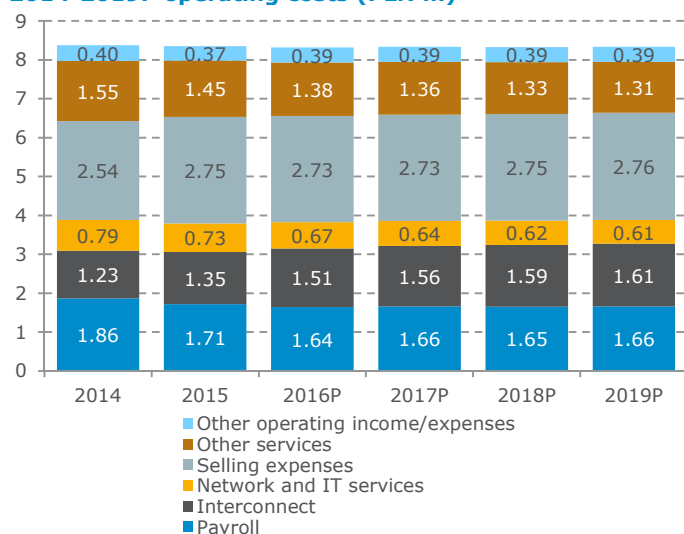
### Mobile subscribers (millions) and ARPU (PLN, rhs)



Source: Dom Maklerski mBanku

Costs are expected to be kept constant in 2017, and in subsequent years we predict a small rise in payroll expenses (driven only by salary increases) and selling expenses, and we assume an over-11% drop in network expenses by 2020, although in actuality, after the planned switch-off of copper services and the migration of PSTN to all-IP, the reduction in network costs should be much more significant.

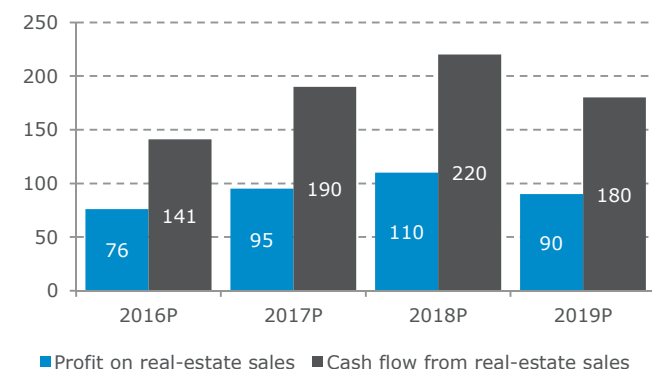
### 2014-2019P operating costs (PLN m)



Source: Dom Maklerski mBanku

Our financial outlook for Orange Polska factors in proceeds from sales of real estate worth an estimated PLN 850m through 2021, generating profits of half the total selling price.

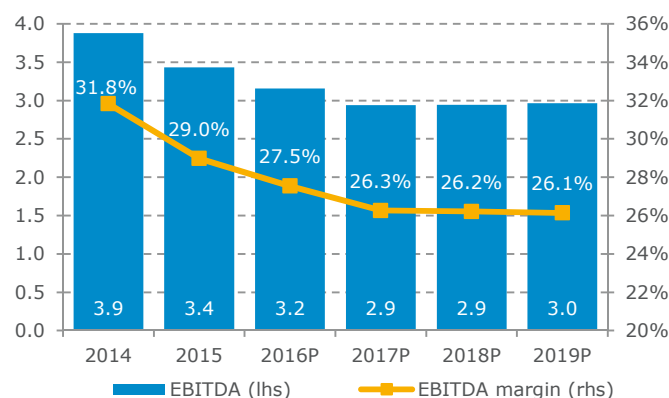
### Projection of profits and cash flow on property sales (PLN m)



Source: Dom Maklerski mBanku

When it comes to EBITDA, we predict that after contraction at a decelerating pace through 2018, earnings will show an upward shift in 2019.

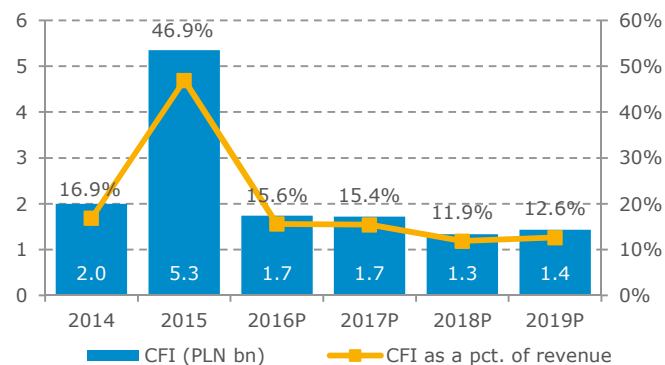
### EBITDA (PLN bn) and EBITDA margin projection



Source: Dom Maklerski mBanku

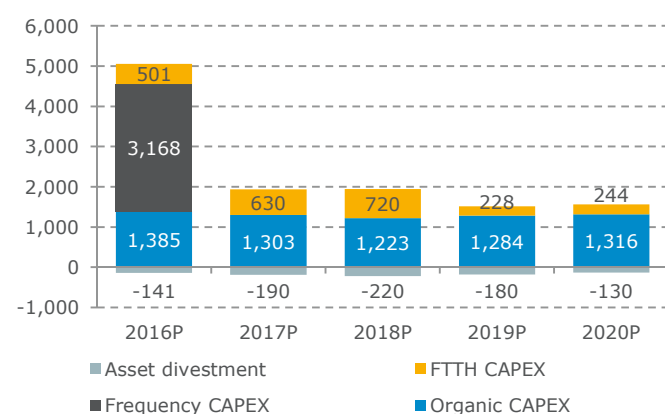
We expect that Orange will spend about PLN 2 billion on average per year on capital investment in 2016-2018, with the bulk of the CAPEX allocated to the FTTH network. From 2019 onward, we assume a marked drop in FTTH CAPEX, with organic CAPEX at a projected 12% of revenue.

### Investing cash flow projection



Source: Dom Maklerski mBanku

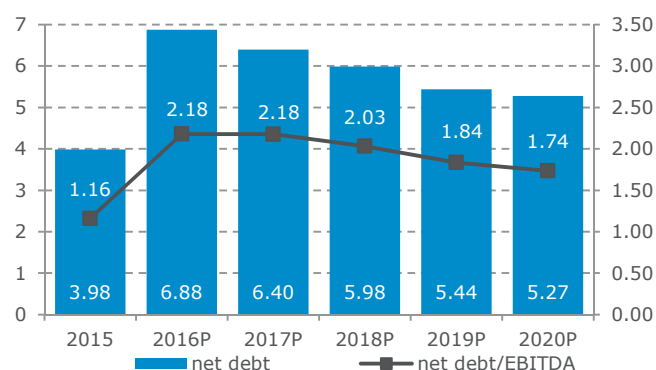
### 2016-2020P CAPEX projection (PLN m)



Source: Dom Maklerski mBanku

When it comes to shareholder distributions, we assume they will be maintained at PLN 0.25 per share in 2017-2019 as Orange will most likely keep its net debt/EBITDA ratio at or below the 2.2x cap at the end of 2016. In 2017 debt will increase after the payment of the EUR 127.5m fine imposed in 2011 by the European Commission on Orange Polska's predecessor for abuse of dominant position, however this will be offset by the planned sale of mobile device receivables in an expected amount of PLN 800m (Orange is currently negotiating the factoring terms with financing providers), and as a result the net debt/EBITDA ratio will not exceed the 2.2x threshold.

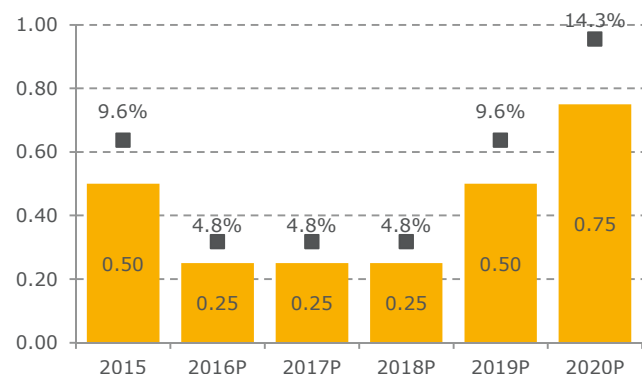
### 2015-2020P net debt/EBITDA ratio



Source: Dom Maklerski mBanku

In the long term, we believe Orange Polska may offer DPS as high as 0.75 while maintaining stable levels of debt.

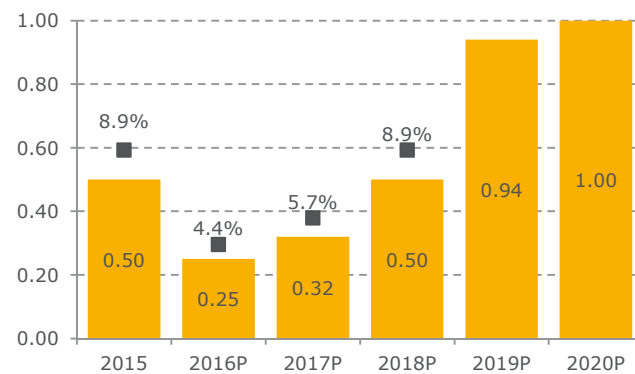
#### DPS (PLN) and dividend yield (%) projection



Source: Dom Maklerski mBanku

The following diagram shows our maximum DPS and dividend yield predictions if net debt is to be maintained at 2.2x max of EBITDA.

#### DPS (PLN) and dividend yield (%) projection if net debt/EBITDA=2.1X



Source: Dom Maklerski mBanku

### Cost of Equity comparison: Orange Polska vs. peers

Peer Group	Debt	Market Capitalization	Beta (levered)	Tax Rate	D/E	Beta (unlevered)
BELGACOM SA	1,919	-	-	34%	n/a	n/a
BT GROUP PLC	10,815	36,215	0.74	20%	0.3	0.59
DEUTSCHE TELEKOM AG-REG	51,744	67,240	1.01	30%	0.8	0.65
ELISA OYJ	932	-	-	20%	n/a	n/a
ILIAD SA	1,189	10,080	0.54	33%	0.1	0.50
KONINKLIJKE KPN NV	5,407	11,175	0.83	25%	0.5	0.61
MEGAFON-REG S GDR	51,025	5,363	0.92	20%	9.5	0.11
MOBILE TELESYSTEMS OJSC	313,510	440,140	0.98	20%	0.7	0.63
ORANGE	28,168	36,243	0.99	33%	0.8	0.65
ORANGE POLSKA SA	3,982	6,864	0.70	19%	0.6	0.48
PORTUGAL TELECOM SGPS SA-REG	-65	-	-	21%	n/a	n/a
ROSTELECOM	178,430	210,010	0.64	20%	0.8	0.38
SWISSCOM AG-REG	8,073	22,498	0.46	22%	0.4	0.36
TALKTALK TELECOM GROUP	699	1,816	0.93	20%	0.4	0.71
TDC A/S	27,235	28,615	0.51	24%	1.0	0.29
TELE2 AB-B SHS	9,154	33,230	0.79	22%	0.3	0.65
TELECOM ITALIA SPA	29,422	13,060	1.04	31%	2.3	0.41
TELEFONICA SA	51,416	39,376	1.11	28%	1.3	0.57
TELEKOM AUSTRIA AG	2,572	3,285	0.49	25%	0.8	0.31
TELENOR ASA	61,038	189,930	0.92	27%	0.3	0.75
TELIASONERA AB	68,380	-	-	22%	n/a	n/a
TURK TELEKOMUNIKASYON AS	-	19,670	0.90	20%	n/a	n/a
TURKCELL ILETISIM HIZMET AS	-	20,856	0.78	20%	n/a	n/a
VIMPELCOM LTD-SPON ADR	4,481	5,832	2.06	25%	0.8	1.31
VODAFONE GROUP PLC	38,984	53,869	0.83	20%	0.7	0.52
O2 CZECH REPUBLIC AS	1,011	74,422	0.76	19%	0.0	0.75
MAGYAR TELEKOM TELECOMMUNICA	408,540	499,470	0.49	19%	0.8	0.30
NETIA SA	252	1,655	0.37	19%	0.2	0.33
CYFROWY POLSAT SA	10,876	14,639	0.71	19%	0.7	0.44
HELLENIC TELECOMMUN ORGANIZA	860	3,899	0.71	29%	0.2	0.62
Median unlevered Beta						0.55
Effective tax rate for Orange Polska						19%
Leverage of Orange Polska (D/E)						50%
Beta of Orange Polska						0.77
Risk premium						5%
<b>Cost of equity for Orange Polska</b>						<b>7.5%</b>

## Valuation

Using DCF analysis and relative valuation, we set our nine-month price target for Orange Polska stock at PLN 7.00 per share.

(PLN)	weight	price
Relative Valuation	50%	5.23
DCF Analysis	50%	7.91
	price	6.57
	9M target price	7.00

## DCF Valuation

Assumptions:

- The forecast period extends from Q4 2016 through FY2025.
- The risk-free rate in the forecast period is 3.50%.

- We assume FCF after the forecast period will grow at a rate of 0.0%.
- Net debt is as of 30 September 2016 (PLN 7,023m).

### DCF Model

(PLN m)	4Q'16P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	+
Revenue	2,839	11,179	11,163	11,208	11,322	11,450	11,567	11,666	11,751	11,834	
change		-1.9%	-0.1%	0.4%	1.0%	1.1%	1.0%	0.9%	0.7%	0.7%	
EBITDA	632	2,941	2,944	2,965	3,038	3,128	3,153	3,204	3,238	3,268	
margin	22.3%	26.3%	26.4%	26.5%	26.8%	27.3%	27.3%	27.5%	27.6%	27.6%	
EBIT	-55	367	508	657	849	1,050	1,178	1,325	1,449	1,503	
EBIT margin	-1.9%	3.3%	4.6%	5.9%	7.5%	9.2%	10.2%	11.4%	12.3%	12.7%	
Tax on EBIT	0	70	97	125	161	199	224	252	275	286	
Effective tax rate	0.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
NOPLAT	-55	298	412	532	687	850	954	1,073	1,174	1,218	
D&A	687	2,573	2,436	2,308	2,189	2,078	1,975	1,879	1,789	1,765	
CAPEX	-622	-1,743	-1,723	-1,332	-1,431	-1,517	-1,648	-1,688	-1,726	-1,765	
Working capital	165	-70	-144	-96	-85	-77	-78	-81	-83	-83	
FCF	175	1,058	981	1,412	1,361	1,334	1,203	1,183	1,153	1,134	1,134
WACC	6.2%	6.3%	6.4%	6.5%	6.5%	6.6%	6.6%	6.7%	6.7%	6.7%	
Discount factor	98.5%	92.7%	87.1%	81.8%	76.8%	72.1%	67.6%	63.4%	59.4%	55.7%	
PV FCF	173	981	855	1,155	1,045	962	813	750	685	631	
WACC	6.2%	6.3%	6.4%	6.5%	6.5%	6.6%	6.6%	6.7%	6.7%	6.7%	6.7%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	50.1%	48.3%	46.6%	44.2%	43.5%	42.2%	41.6%	41.0%	40.5%	40.2%	40.2%
Cost of equity	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	0.0%
Terminal value	16,803
Present value of terminal value	9,354
Present value of FCF in the forecast period	8,049
Enterprise value	17,403
Net debt at 30 Sep '16	7,023
Other noncore assets	0
Minority interests	2
Equity Value	10,378
Number of shares (millions)	1312
Equity value per share (PLN)	7.9
9M cost of equity	6.6%
<b>9M target price (PLN)</b>	<b>8.4</b>

### Sensitivity Analysis

	FCF growth in perpetuity				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
WACC +1.0 p.p.	6.0	6.4	6.8	7.3	7.8
WACC +0.5 p.p.	6.7	7.1	7.6	8.1	8.7
WACC	7.4	7.9	8.4	9.1	9.8
WACC -0.5 p.p.	8.2	8.8	9.4	10.2	11.1
WACC -1.0 p.p.	9.1	9.8	10.6	11.5	12.7

EV/EBITDA ('16) at target price	27.5
P/E ('16) at target price	153.0
TV / EV	54%



## Relative Valuation

We compared the EV/EBITDA and DYield-RFR multiples of Orange Polska with those of a peer group. Each multiple is assigned a weight of 50%. We continue to attach a 15% discount to Orange's valuation based on EV/EBITDA. Each of the forecast years 2016, 2017, and 2018, is assigned an equal weight.

### Multiples Comparison

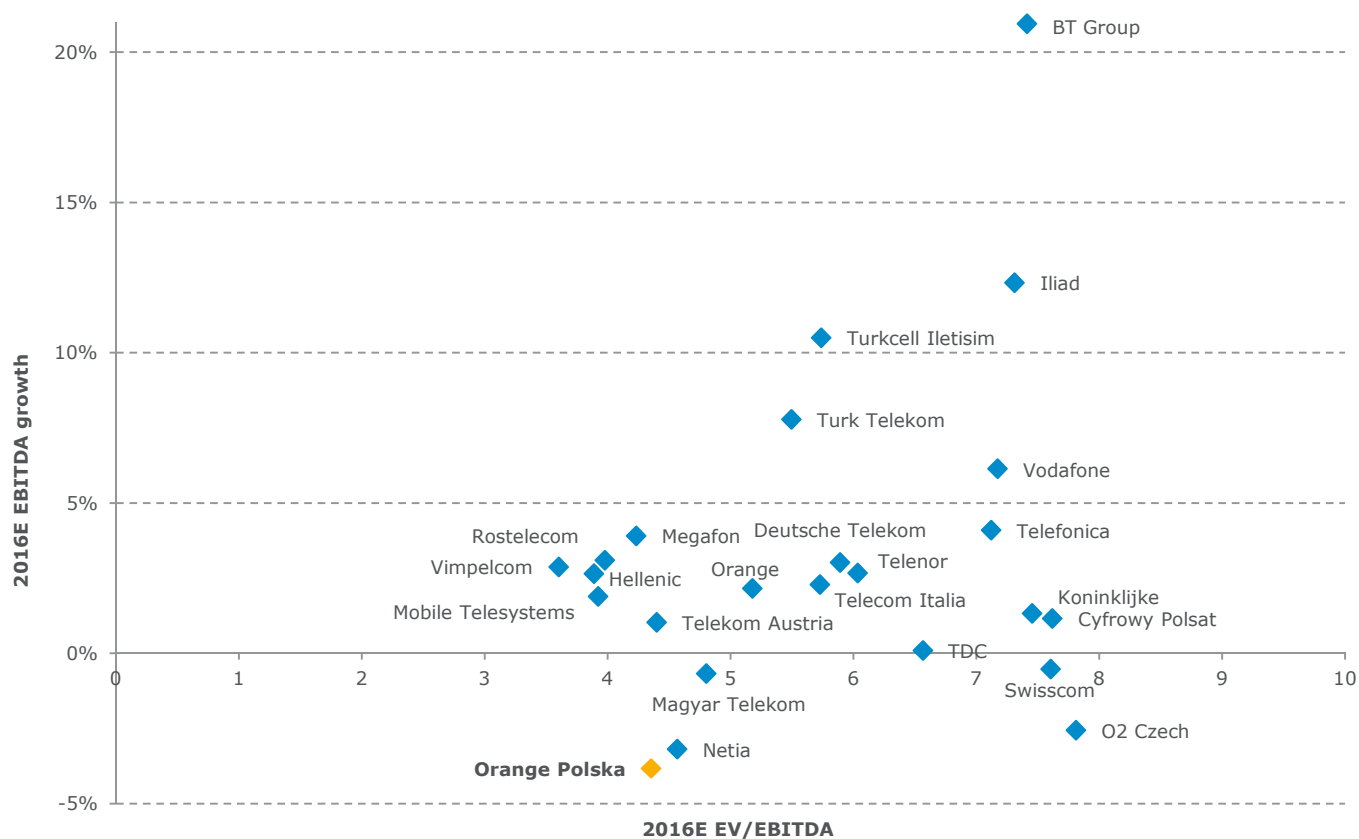
	EV/EBITDA			DYield-RFR		
	2016E	2017E	2018E	2016E	2017E	2018E
BT GROUP PLC	7.3	6.0	5.9	2.5%	2.9%	3.3%
DEUTSCHE TELEKOM AG-REG	5.9	5.7	5.4	3.8%	4.3%	4.7%
KONINKLIJKE KPN NV	7.1	7.0	6.8	11.0%	4.6%	5.4%
MOBILE TELESYSTEMS OJSC	4.4	4.2	4.1	3.6%	2.4%	3.2%
ORANGE	4.0	3.9	3.8	2.7%	2.7%	2.8%
ROSTELECOM	4.2	4.1	3.9	-1.7%	-1.7%	-1.4%
SWISSCOM AG-REG	7.3	7.3	7.3	5.2%	5.2%	5.3%
TDC A/S	6.3	6.3	6.2	2.5%	2.7%	3.1%
TELECOM ITALIA SPA	5.4	5.3	5.2	-1.8%	-1.1%	-0.5%
TELEFONICA SA	6.5	6.3	6.1	6.5%	5.5%	5.9%
TELEKOM AUSTRIA AG	4.3	4.2	4.2	2.4%	3.2%	3.0%
TELENOR ASA	5.4	5.3	5.2	4.5%	4.7%	5.0%
VIMPELCOM LTD-SPON ADR	3.0	3.0	2.9	0.6%	3.5%	4.9%
VODAFONE GROUP PLC	7.1	6.7	6.6	4.9%	4.8%	4.6%
O2 CZECH REPUBLIC AS	7.8	8.0	7.9	6.8%	6.3%	6.6%
MAGYAR TELEKOM TELECOMMUNICA	4.8	4.9	4.8	1.6%	3.1%	4.1%
NETIA SA	4.4	4.6	4.6	3.7%	2.7%	1.8%
CYFROWY POLSAT SA	7.4	7.3	7.2	-2.2%	-1.4%	-0.2%
HELLENIC TELECOMMUN ORGANIZA	3.9	3.8	3.8	0.0%	0.0%	0.0%
TURK TELEKOMUNIKASYON AS	5.4	5.0	4.7	-4.9%	-1.8%	0.0%
TURKCELL ILETISIM HIZMET AS	5.3	4.7	4.4	-5.0%	-5.5%	-4.8%
Maximum	7.8	8.0	7.9	11.0%	6.3%	6.6%
Minimum	3.0	3.0	2.9	-5.0%	-5.5%	-4.8%
Median	5.4	5.3	5.2	2.5%	2.9%	3.2%
Orange Polska	4.4	4.5	4.4	1.8%	1.8%	1.8%
premium / discount	-19.7%	-14.7%	-15.4%	-26.6%	-36.0%	-43.6%

### Implied valuation

Median	5.4	5.3	5.2	2.5%	2.9%	3.2%
Discount	-15%	-15%	-15%	0%	0%	0%
Multiple weight		50.0%			50.0%	
Year weight	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%

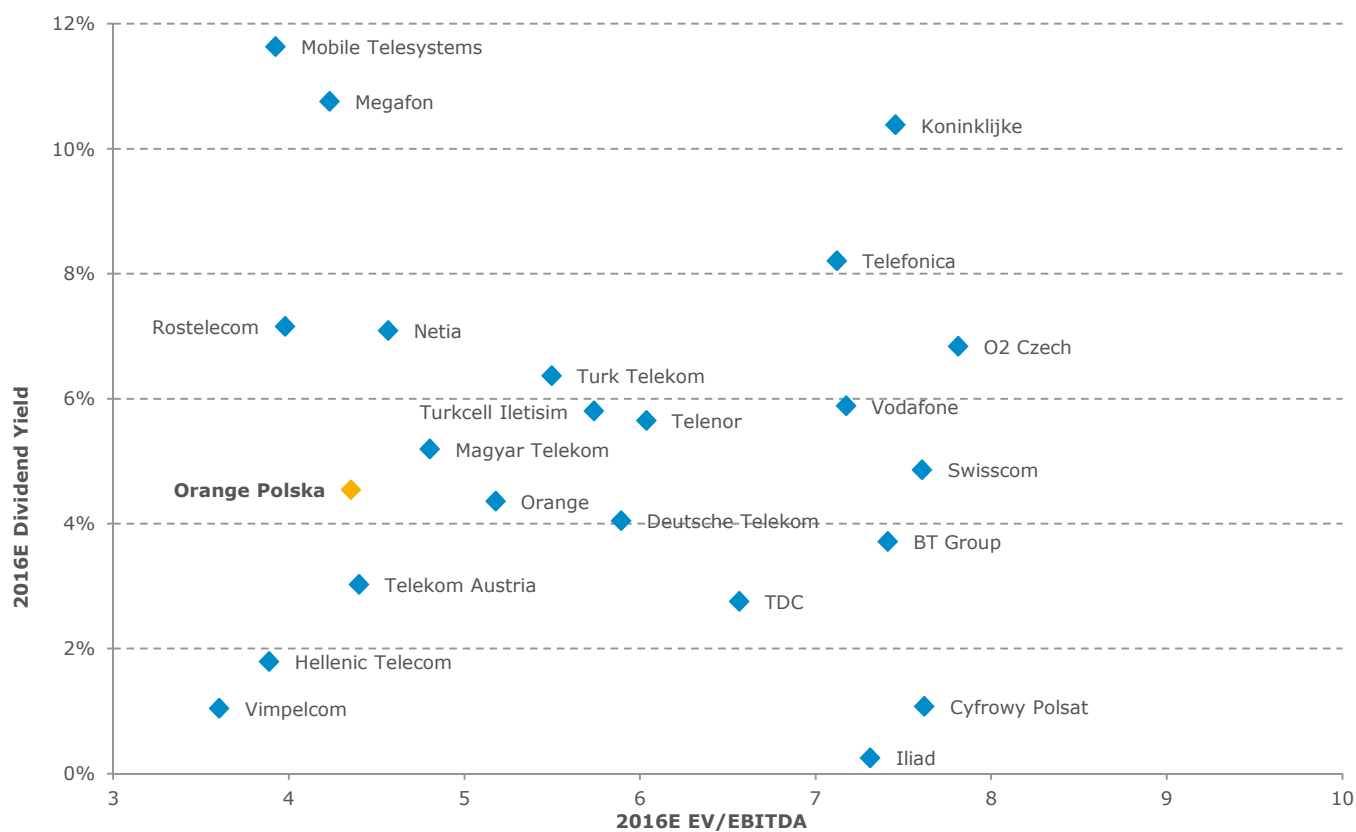
**Value per share (PLN)** **5.23**

### 2016E EBITDA growth vs. EV/EBITDA, Orange Polska vs. other telecoms



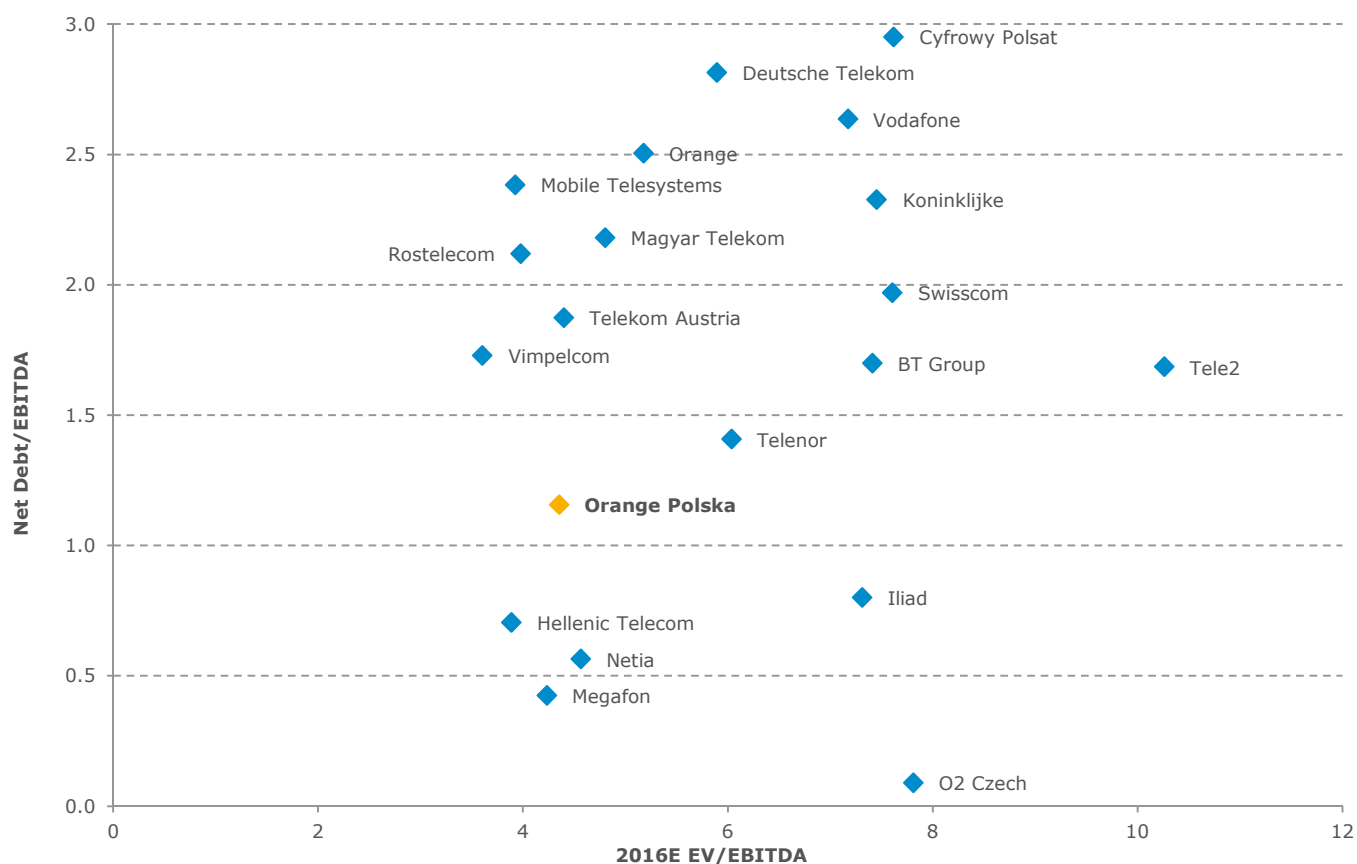
Source: Bloomberg, Dom Maklerski mBanku

### 2016E EV/EBITDA vs. Dividend Yield, Orange Polska vs. other telecoms



Source: Bloomberg, Dom Maklerski mBanku

## 2016E EV/EBITDA vs. Net Debt/EBITDA, Orange Polska vs. other telecoms



Source: Bloomberg, Dom Maklerski mBanku

## Income Statement

(PLN m)	2014	2015	2016P	2017P	2018P	2019P	2020P
Revenue	12,191	11,840	11,396	11,179	11,163	11,208	11,322
change	-4.7%	-2.9%	-3.8%	-1.9%	-0.1%	0.4%	1.0%
Mobile Communications	5,713	5,498	5,338	5,218	5,264	5,279	5,283
Mobile Devices	427	643	994	1,174	1,264	1,277	1,289
Fixed-Line Services	5,515	5,083	4,652	4,369	4,209	4,218	4,306
Other revenue	536	616	412	418	426	435	444
Payroll	1,864	1,713	1,641	1,656	1,655	1,658	1,666
Services, of which:	6,110	6,271	6,289	6,292	6,289	6,288	6,292
- Interconnect	1,231	1,345	1,507	1,558	1,587	1,612	1,616
- Network and IT	788	734	673	641	622	609	609
- Selling expenses	2,544	2,745	2,733	2,733	2,747	2,760	2,774
- Other services	1,547	1,447	1,376	1,360	1,333	1,306	1,293
Other operating income/expenses	402	367	386	386	385	387	391
Severance benefits	-8	129	0	0	0	0	0
Asset divestiture	57	71	76	95	110	90	65
EBITDA	3,880	3,431	3,155	2,941	2,944	2,965	3,038
margin	31.8%	29.0%	27.7%	26.3%	26.4%	26.5%	26.8%
EBITDA (adjusted)	3,916	3,521	3,155	2,941	2,944	2,965	3,038
margin	32.1%	29.7%	27.7%	26.3%	26.4%	26.5%	26.8%
D&A	-3,072	-2,871	-2,718	-2,573	-2,436	-2,308	-2,189
EBIT	791	572	439	367	508	657	849
margin	6.5%	4.8%	3.9%	3.3%	4.6%	5.9%	7.5%
Financing activity	-405	-291	-348	-311	-291	-265	-257
Pre-tax income	386	281	91	56	217	392	592
margin	3.2%	2.4%	0.8%	0.5%	1.9%	3.5%	5.2%
Tax	-46	-27	-23	-11	-41	-75	-113
Net income	340	254	68	45	176	318	480
margin	2.8%	2.1%	0.6%	0.4%	1.6%	2.8%	4.2%
Shares at year-end (millions)	1312	1312	1312	1312	1312	1312	1312
EPS	0.26	0.19	0.05	0.03	0.13	0.24	0.37
CEPS	2.60	2.38	2.12	2.00	1.99	2.00	2.03
ROAE	2.7%	2.1%	0.6%	0.4%	1.5%	2.9%	4.5%
ROAA	1.5%	1.2%	0.3%	0.2%	0.8%	1.4%	2.2%

## Balance Sheet

(PLN m)	2014	2015	2016P	2017P	2018P	2019P	2020P
<b>ASSETS</b>	22,104	21,652	24,106	23,036	22,782	22,351	21,767
Fixed assets	20,026	19,322	21,704	20,044	19,317	18,340	17,581
Current assets	2,078	2,330	2,403	2,992	3,465	4,011	4,186
Inventory	198.0	228.0	221.2	217.0	216.7	217.6	219.8
Trade receivables	1,372.0	1,591.0	1,549.7	1,665.8	1,721.6	1,725.7	1,729.7
Derivatives	21.0	33.0	3.0	3.0	3.0	3.0	3.0
Other	239.0	212.0	142.0	142.0	142.0	142.0	142.0
Cash	248.0	266.0	486.7	964.4	1381.4	1922.9	2091.6
<b>EQUITY AND LIABILITIES</b>	22,104	21,652	24,106	23,036	22,782	22,351	21,767
Equity	12,396	11,975	11,732	11,449	11,297	10,959	10,455
Long-term liabilities	4,997.0	4,490.0	8,036.0	7,936.0	7,836.0	7,736.0	7,636.0
Trade creditors	866.0	767.0	667.0	567.0	467.0	367.0	267.0
Loans from associates	3,229.0	2,849.0	6,652.0	6,652.0	6,652.0	6,652.0	6,652.0
Other payables	59.0	81.0	66.0	66.0	66.0	66.0	66.0
Derivatives	148.0	125.0	131.0	131.0	131.0	131.0	131.0
Other	695.0	668.0	520.0	520.0	520.0	520.0	520.0
Current liabilities	4709.0	5185.0	4336.6	3649.2	3646.5	3654.4	3674.2
Trade creditors	2006.0	2130.0	1986.6	1948.7	1946.0	1953.9	1973.7
Loans from associates	1078.0	1273.0	608.0	608.0	608.0	608.0	608.0
Reserves	790.0	803.0	824.0	174.5	174.5	174.5	174.5
Income tax	58.0	60.0	31.0	31.0	31.0	31.0	31.0
Other liabilities	131.0	191.0	187.0	187.0	187.0	187.0	187.0
Deferred income	402.0	486.0	478.0	478.0	478.0	478.0	478.0
Other	244.0	242.0	222.0	222.0	222.0	222.0	222.0
Debt	4,431.0	4,248.0	7,364.0	7,364.0	7,364.0	7,364.0	7,364.0
Net debt	4,183.0	3,982.0	6,877.3	6,399.6	5,982.6	5,441.1	5,272.4
(Net debt / Equity)	0.3	0.3	0.6	0.6	0.5	0.5	0.5
(Net debt / EBITDA)	1.1	1.2	2.2	2.2	2.0	1.8	1.7
BVPS	9.4	9.1	8.9	8.7	8.6	8.4	8.0

**Cash Flow**

(PLN m)	2014	2015	2016P	2017P	2018P	2019P	2020P
Cash flow from operating activities	2,753	2,537	2,800	2,549	2,468	2,530	2,583
Net income	535	254	68	45	176	318	480
D&A	3,073	2,871	2,718	2,573	2,436	2,308	2,189
Change in working capital and other	-255	-388	118	-70	-144	-96	-85
Other	-600	-200	-104	0	0	0	0
Cash flow from investing activities	-1,745	-1,570	-5,348	-1,743	-1,723	-1,332	-1,431
CAPEX	-2,153	-1,998	-5,489	-1,933	-1,943	-1,512	-1,561
Other	408	428	141	190	220	180	130
Cash flow from financing activities	-965	-949	2,769	-328	-328	-656	-984
Debt	-489	-298	3,030	0	0	0	0
Dividend/buyback	-656	-656	-328	-328	-328	-656	-984
Other	180	5	67	0	0	0	0
Change in cash	43	18	221	478	417	541	169
Cash at period-end	248	266	487	964	1,381	1,923	2,092
DPS (PLN)	0.50	0.50	0.25	0.25	0.25	0.50	0.75
FCF	1,008	967	-2,548	806	745	1,197	1,153
(CAPEX/Sales)	17.7%	16.9%	48.2%	17.3%	17.4%	13.5%	13.8%

**Trading Multiples**

	2014	2015	2016P	2017P	2018P	2019P	2020P
P/E	20.2	27.0	101.1	151.1	39.0	21.6	14.3
P/CE	2.0	2.2	2.5	2.6	2.6	2.6	2.6
P/BV	0.6	0.6	0.6	0.6	0.6	0.6	0.7
P/S	0.6	0.6	0.6	0.6	0.6	0.6	0.6
FCF/EV	9.1%	8.9%	-18.5%	6.1%	5.8%	9.7%	9.5%
EV/EBITDA	2.8	3.2	4.4	4.5	4.4	4.1	4.0
EV/EBIT	14.0	19.0	31.3	36.1	25.3	18.7	14.3
EV/S	0.9	0.9	1.2	1.2	1.2	1.1	1.1
DYield	9.6%	9.6%	4.8%	4.8%	4.8%	9.6%	14.3%
Price (PLN)	5.23	5.23	5.23	5.23	5.23	5.23	5.23
Shares at year-end (millions)	1312	1312	1312	1312	1312	1312	1312
MC (PLN m)	6,862	6,862	6,862	6,862	6,862	6,862	6,862
EV (PLN m)	11,045	10,844	13,739	13,261	12,844	12,303	12,134



#### List of abbreviations and ratios contained in the report:

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**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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**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
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The present report was not transferred to the issuer prior to its publication.  
 mBank S.A. has a subscription agreement in place with Orange Polska.

The production of this recommendation was completed on November 21, 2016, 8:58 a.m.  
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**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

#### mBank issued the following investment recommendations for Orange Polska in the 12 months prior to this publication

rating	buy
rating date	2016-02-02
price on rating date	6.43
WIG on rating date	44294.89

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