

Tuesday, October 29, 2019 | special comment

## Orange Polska - 2019 Q3 Earnings Conference Highlights

Rating: buy | target price: PLN 7.50 | current price: PLN 6.32

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**Orange painted a very optimistic medium-term outlook at the third-quarter earnings conference, with promises of scaled-back FTTx expenditures and reassurance that the transition to higher prices has gone over well with the customers. To our surprise, the CEO volunteered a comment about the possibility of renewed dividends, and he shared that to the best of his knowledge the C-band would be distributed evenly between operators. The individual blocks are not identical, but the differences are small and probably not worth overpaying for.**

### Key Takeaways:

- Orange confirmed it was cutting back fiber expenditures from 2020, with the focus shifted to monetizing the existing infrastructure (the current penetration rate is ca. 12%); anyway, places where FTTx investment is economically viable have become much fewer. Orange intends to shift part of the FTTx resources to 5G. Last but not least, the Company wants to go back to making regular distributions to shareholders at some point in the future.

- Packaged services remain a key pillar of Orange Polska's strategy. Even though net additions of packaged customers are declining quarter to quarter, an increasing number of these users are first-time customers.
- Asked about the reaction to the recent hikes in prices of mobile plans, the CEO pointed out that Orange achieves the highest net customer acquisition rates of all Polish telecoms, and the lowest churn rates, confirming that the hikes have been received relatively well.
- Orange expects the 5G spectrum to be allocated by way of an auction between four operators, expected to take place in the first half of 2020. There are differences in the block sizes, but from what we can gather they are not big and stem from existing local bookings.
- Orange is observing increased competition in B2C fixed-line services, mainly in large urban areas, and it defends its modest share in this market by aggressively responding to any price moves by the competition.



**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

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**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.

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