

Friday, November 15, 2019 | special comment

Orange Polska – Parent's Plans Spark Tower Sale Rumors

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

OPL PW; OPL.WA | TMT, Poland

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After a story in yesterday's *Financial Times* on the plans of Orange Group to carve out its mobile towers into a separate company, there are questions about whether these plans are also relevant to the Group's Polish arm, Orange Polska (OPL). In our opinion, a carve-out of tower assets would boost the value of Orange Polska, and their possible sale would provide cash to re-invest in FTTx infrastructure, something investors would welcome. Last but not least, OPL's EV/EBITDA multiple would improve through reduced net debt. Although the spin-off story has not been officially confirmed yet by Orange, the media coverage alone can probably turn sentiment more bullish. That was the case with Cyfrowy Polsat (CPS), which has logged substantial share price gains in recent months on speculation that it is planning to sell its cell towers after carving them out into a separate company.

- According to the *Financial Times* article entitled *Orange prepares carve-out of mobile towers*, "Orange is preparing to split its mobile towers into a separate company, capitalising on investor interest in telecoms infrastructure in a move that could boost the French group's valuation by more than EUR 10bn."
- The paper goes on to say that "carving out the masts into an independent company could pave the way for a potentially lucrative stake sale to a tower specialist such as Spain's Cellnex or infrastructure or private equity funds."
- According to the authors, "France has been a very active market for tower consolidation after Orange rivals Bouygues, Iliad and Altice sold masts in recent years."
- Orange France is holding an investor day on 4 December, and the expectation is that it will confirm the mast plans during the event.
- FT quotes Orange SA's CEO, Stéphane Richard, as saying in May that "strong investor interest in tower and fibre assets showed intrinsic value of telecoms networks, and that Orange was considering ways to maximise the value of its networks assets."
- In Poland, Orange Polska owns more than 5,500 cell towers.
- Looking at similar deals completed in Europe in the past, and considering its much lower ARPU, these assets probably represent a major part of OPL's market capitalization (estimates start well above PLN 1.0bn).

Selected recent deals in cell tower infrastructure

Deal	Seller	Buyer	Assets	Value (EUR m)
2019	Iliad	Cellenex	70% ownership in 5.7k cell towers in France	2,000
2019	Iliad	Cellenex	2.2k towers in Italy	600
2018	Altice	KKR	50% ownership in 10.2k towers in France	1,800
2018	Telefonica	Pontegadea	10% stake in Telxius	379
2017	Telefonica	KKR	40% stake in Telxius	1,275
2016	Telefonica Deutschland	Telxius	2,350 towers in Germany	587
2015	Telecom Italia	IPO	40% stake in Inwit	780
2015	Verizon	American Tower	Sale-and-leaseback of 11.5k towers	4,600

Source: telko.in

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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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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