

Thursday, July 30, 2020 | update

Orange Polska: buy (upgraded)

OPL PW; OPL.WA | Telco, Poland

Broadband Boom & Solid Second-Quarter Results

Stocks in Orange Polska ("Orange") have rallied more than 20% since our last update in March. As predicted, the coronavirus crisis has had hardly any negative effects on the telecommunications sector; In fact, as reflected in the 2020 Q2 results of Orange, it has boosted broadband thanks to additional demand for fast home internet. Orange acquired 44,000 new fiber network connections in the second quarter, and its average revenue per convergent bundle (average revenue per offer; ARPO) shifted upwards, rising 5.6% from the comparable year-ago period. Looking at the fiber boom, accompanied by a general upward trend in prices of telecommunications services, considering that sales of smartphones and electronics have not taken as much of a hit as thought, after taking into account successful cost-cutting initiatives, we are prompted to revise our 2020 and 2021 EBITDAaL forecasts for Orange Polska 8% higher. On the updated estimates, our upwardly-revised target price for OPL at PLN 8.30 implies upside potential greater than 17%, and mandates a buy recommendation. We maintain our contrarian bullish view on Orange Polska, additionally reinforced for a medium-term horizon by a likely sale of fiber network infrastructure.

Orange Posts Good 2020 Q2 Results

Orange Polska generated EBITDAaL of an estimated PLN 704m in Q2 2020 on a recurring basis after stripping one-time events, a 1.6% higher amount than anticipated by us and an increase of 6.3% on the same period a year earlier. The improvement is a huge achievement considering that the second quarter was the height of lockdown restrictions, causing the quarterly roaming revenue to fall 50%, and resulting in low sales of electronics and a contraction in the pre-paid card base by 110+ thousand users. Despite headwinds, Orange has reiterated its FY2020 EBITDAaL growth guidance.

Orange's key performance indicators for Q2 highlighted strong performance in broadband, reflected in 40% subscriber growth relative to the same year-ago quarter, accompanied by continued strides in convergence and an upward shift in broadband-only ARPO (+5.6% Y/Y).

Potential Sale of Fiber Infrastructure

Shares in Orange Polska jumped after Bloomberg's story in July about a rumored sale of a portion of interests in the Polish fiber optic network for an estimated EUR 1bn. However the rally was a short one and OPL eventually gave back most of the gains even though in our view the spin-off of a FiberCo followed by the sale of a minority stake would be a win-win for everyone, generating shareholder value while mitigating credit risk during a time of heavier investment in fixed line as well as mobile. Orange has not outright confirmed the reports, but we are convinced a deal of the kind alleged by Bloomberg is forthcoming, and we maintain that the separation of equity investors from infrastructure investors should generate improved sentiment regardless of whether the rumored price proves accurate.

(PLN m)	2018*	2019	2020P	2021P	2022P
Revenue	11,087.0	11,405.6	11,528.2	11,740.6	11,904.8
EBITDAaL **	-	2,735.0	2,864.0	3,007.7	3,146.7
EBITDAaL margin	-	24.0%	24.8%	25.6%	26.4%
EBIT	345.0	416.8	593.1	835.8	1,052.7
Net profit	10.0	91.3	243.5	454.1	622.0
P/E	-	125.2	38.1	20.4	14.9
P/CE	3.6	3.2	3.0	2.9	2.8
P/B	0.9	0.9	0.9	0.8	0.8
EV/EBITDA	5.6	5.4	5.1	4.7	4.5
DPS	0.00	0.00	0.00	0.25	0.25
Dividend Yield	0.0%	0.0%	0.0%	3.5%	3.5%

* ex. IFRS 16 effects; ** EBITDA ex. leases and real-estate profits

Current Price	PLN 7.07
Target Price	PLN 8.30
MCap	PLN 9.3bn
Free Float	PLN 4.6bn
ADTV (3M)	PLN 25.4m

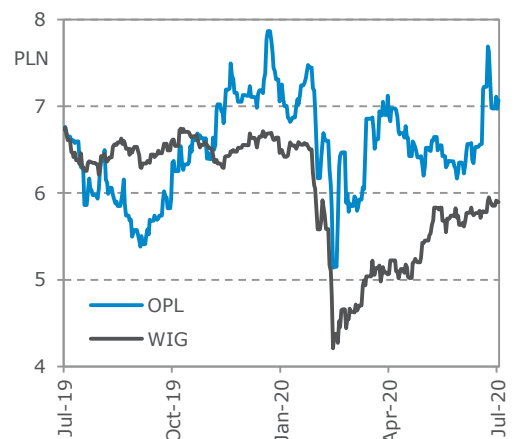
Shareholders

Orange S.A.	50.67%
Others	49.33%

Business Profile

Orange Polska is a leading telecommunications provider in Poland with 15.3 million mobile users, 2.6 million broadband users, and 3.1 million voice users at the end of 2018. This was equivalent to respective market shares of 28% in mobile and 47% in fixed line. Orange controls 28% of Poland's broadband Internet market. It is currently in the process of building FTTx infrastructure.

OPL vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
Orange Polska	8.30	6.90	buy	accumulate

Company	Current Price	Target Price	Upside
Orange Polska	7.07	8.30	+17.4%

Forecast Update	2020E	2021E	2022E
Revenue	+3.4%	+3.7%	+3.3%
EBITDAaL	+8.3%	+8.2%	+8.0%
Net Profit	+289%	+73%	+47%

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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

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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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%
SELL – we expect that an investment will bear a loss greater than 15%

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

Rating	accumulate	buy	accumulate	buy	accumulate
Rating date	2020-06-03	2020-03-27	2019-11-29	2019-09-05	2019-08-02
Target price (PLN)	6.90	6.90	7.40	7.50	7.50
Price on rating day	6.49	5.88	6.46	6.12	6.70

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