

Tuesday, 31 October 2023 | update

Orange Polska: buy (reiterated)

OPL PW; OPLWA | Telecommunications, Poland

Dividend Growth and Attractive Valuation

Orange Polska (“Orange”) remains our top Polish telco pick. We expect that, in 2023, the company will grow EBITDAaL by ca. 3% despite a worsened macro environment, difficulty passing on inflation to the end customers, and continued pay pressures from a series of minimum wage increases in Poland. Earnings growth despite these difficulties is a clear mark of the resilience of Orange Polska’s business.

Further, a unique asset base (with more than 7m fiber households in the network) generates solid commercial results. To be precise, over the last 12 months Orange has grown its fiber-connected customer base by 14% while mobile handset customers added 2.4%. That was accompanied by 3-4% ARPO expansion.

Orange is a defensive play with high FCFE generation (>10%) and a healthy balance sheet position (net debt / ex. IFRS16 EBITDAaL = 1.2x at 2023E eop after a 5G spectrum payment). As such, we expect the company to be able to increase annual dividend payments to PLN 0.50 per share in 2024 and PLN 0.60 in 2025.

OPL is currently valued at 4.3x EV/EBITDA, showing a discount of over 20% to the peer group. On the downside, in our view the market is currently too optimistic about Orange’s earnings potential. As reflected in our EBITDAaL estimates, which are lower than the current consensus. We agree that Orange Polska will continue growing EBITDAaL going forward, but the pace of the growth is bound slow relative to 2023, which is positively impacted by energy resale and high sales margins on electronics.

We maintain a buy recommendation for Orange with the target price raised to PLN 9.60 per share, implying upside potential of 25%.

Dividend growth

We assume that Orange Polska will generate organic FCF of a record PLN 1,094 million this year. We also expect that the company will end 2023 with a ratio of net debt ex. IFRS16 to EBITDAaL of 1.2x after paying the price for 3.4-3.8 GHz band spectrum. If we are right, this would be a significantly below the target leverage ratio (1.7x-2.2x net debt ex. leases / EBITDAaL) set in Orange Polska’s long-term ‘Grow’ strategy. Last but not least, the coming years are expected to bring an improvement in the revenues that Orange generates from its core business lines, which are a major factor in the Management Board’s dividend decisions. Consequently, we assume the company will increase the future per-share distributions to PLN 0.50 in 2024 and PLN 0.60 in 2025.

Successful turnaround – is this enough for a rerating?

Orange Polska has completed a massive transformation from a mainly copper-based monopoly struggling with substantial customer outflow and an inflated cost base. Today, after several years devoted to restructuring the organization and finances, Orange has reestablished itself as a convergent operator with fiber and mobile infrastructure. Demand for fiber remains strong, with the share of fiber customers in the total fixed-line Internet customer base already at 46.2% (59.4% ex. the “wireless for fixed” Internet group). We predict that, by the end of 2023, the number of customers on the obsolete ADSL lines will decrease to less than 15% within 2 years from now. With all this in mind, we believe OPL should receive higher valuation multiples from the market.

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	11,928	12,488	12,857	13,195	13,691
eEBITDAaL	2,963	3,078	3,173	3,240	3,358
margin	24.8%	24.6%	24.7%	24.6%	24.5%
EBIT	2211	1161	1412	1499	1593
net profit	1672	724	918	967	1048
P/E	6.0	13.9	11.0	10.4	9.6
P/S	0.8	0.8	0.8	0.8	0.7
EV/eEBITDAaL*	4.8	4.6	4.4	4.2	4.0
EV/EBITDA	3.4	4.6	4.3	4.1	4.0
DPS (PLN)	0.00	0.25	0.35	0.50	0.60
DYield	0.0%	3.3%	4.6%	6.5%	7.8%

*net debt ex. IFRS

Current Price*	PLN 7.66
Target Price	PLN 9.60
mCap	PLN 10.1bn
Free Float	PLN 5.0bn
ADTV (3M)	PLN 14.0m

*Price as of October 30, 2023, 5:00 PM

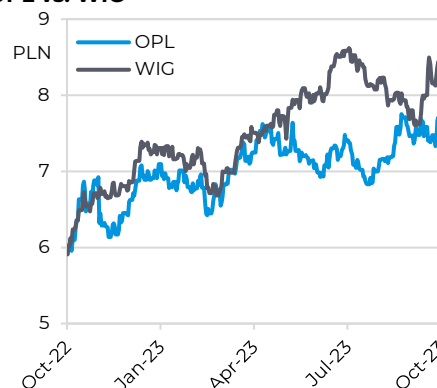
Shareholders

Orange S.A.	50.7%
Others	49.3%

About

Orange Polska is a leading telecommunications provider in Poland with 17.6 million mobile users, 2.8 million broadband users, and 2.5 million fixed voice users as of September 2023. This was equivalent to respective market shares of 28% in mobile and 47% in fixed line. Orange controls 27% 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	9.60	9.40	buy	buy
company	current price	target price	upside	
Orange Polska	7.66	9.60	+25.4%	
forecast update		2023E	2024E	2025E
revenue		+0.1%	-0.8%	-0.9%
eEBITDAaL		+1.0%	-0.3%	-0.5%
net profit		+9.1%	+7.1%	+5.1%

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
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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BUY – we expect that the rate of return from an investment will be at least 10%
HOLD – we expect that the rate of return from an investment will range from 0% to +10%
SELL – we expect that an investment will bear a loss
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The production of this recommendation was completed on October 31, 2023, 8:31 AM.
 This recommendation was first disseminated on October 31, 2023, 8:43 AM.

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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.

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

Orange Polska (Paweł Szpigiel)

Rating	buy	buy	buy	buy	buy
Rating date	2023-10-02	2023-07-03	2022-12-01	2022-11-09	2022-10-03
Target price (PLN)	9.40	8.70	7.80	7.40	7.00
Price on rating day	7.47	6.99	6.32	6.34	5.18



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