

Monday, 26 August 2024 | update

## Orange Polska: buy (reiterated)

OPL PW; OPLWA | Telecommunications, Poland

### Potential to Increase Dividends

**Orange Polska ("Orange") has performed well in the last three months, outperforming the WIG broad market index by nearly 9 p.p. Investors used OPL shares as a safe haven during August declines.**

**From a fundamental point of view, Orange still offers prospects for gradual growth in profits, a low valuation at 4.4x EV/EBITDA'24 (nearly 20% below the peer group) and dividend potential. Indeed, we believe given its strong balance sheet (with projected net debt/EBITDA at 1.1x at the end of 2024E) that, at worst, the Company will raise next year's dividends to PLN 0.60 per share, implying high Dividend Yield of 7.2% in 2025.**

**Looking at all the factors discussed above, we believe investors should consider Orange Polska as a pick for their more defensive portfolios.**

**As a reminder, Orange Polska has accomplished a successful turnaround of its business. Two-thirds of the Telecom's broadband subscribers are already connected via FTTx. The legacy ADSL business accounts for only 18% of all subscribers (a significant reduction from 36% in mid-2021). The convergent customer is quickly growing, with ARPO increasing at a consistent rate of 3-4% in the past few quarters. All this makes Orange a good play in our opinion.**

**We have implemented an updated RFR path into our DCF valuation model, and we have reduced the Equity Risk Premium from 6.0% to 5.0%. After all this, we set our new target price for OPL at PLN 10.70 per share, implying upside potential of 28%.**

### Dividend potential

We estimate that Orange Polska's 2024 eop Net Debt ex. IFRS16-to-EBITDAaL ratio will amount to 1.1x (including partial payment for the 3.4-3.8 GHz range spectrum at ca. PLN 305m) – a level that is significantly lower than the debt target communicated by the Company in its "Grow" long-term strategy (1.7x-2.2x Net Debt ex. leases / EBITDAaL).

In the coming years, we expect Orange to generate higher revenues from core business lines. These revenues are a major factor in the Management Board's dividend decisions, and so we expect dividends per share to be raised to PLN 0.60 in 2025. As Orange boasts a robust balance sheet and low debt levels, we think the Management Board will consider an even higher dividend distribution for next year.

### Broadband's successful turnaround

Orange Polska has successfully completed a massive transformation of its business from a monopoly mostly reliant on copper that was facing significant customer attrition and an exorbitant cost structure. Today, following several years of financial and organizational upheaval, the Company has reinvented itself as a convergent operator with fiber and mobile infrastructure.

Demand for fiber is still high, with 50.9% of all fixed-line Internet users in Poland having fiber service (65.1% if one excludes the "wireless for fixed" Internet category).

With this in mind, we believe OPL deserves higher valuation multiples.

(PLN m)	2022	2023	2024E	2025E	2026E
revenue	12,488	12,970	12,772	13,176	13,577
EBITDAaL	3,078	3,179	3,300	3,385	3,466
margin	24.6%	24.5%	25.8%	25.7%	25.5%
EBIT	1,161	1,221	1,434	1,618	1,686
net profit	724	818	909	1,029	1,083
P/E	15.2	13.4	12.1	10.7	10.1
P/S	0.9	0.8	0.9	0.8	0.8
EV/eEBITDAaL*	4.9	4.6	4.4	4.4	4.2
EV/EBITDA	4.8	4.7	4.4	4.3	4.2
DPS (PLN)	0.25	0.35	0.48	0.60	0.60
DYield	3.0%	4.2%	5.7%	7.2%	7.2%

\*net debt ex. IFRS

Current Price*	PLN 8.36
Target Price	PLN 10.70
mCap	PLN 11.0bn
Free Float	PLN 5.5bn
ADTV (3M)	PLN 9.9m

\*Price as of August 23, 2024, 5:00 PM

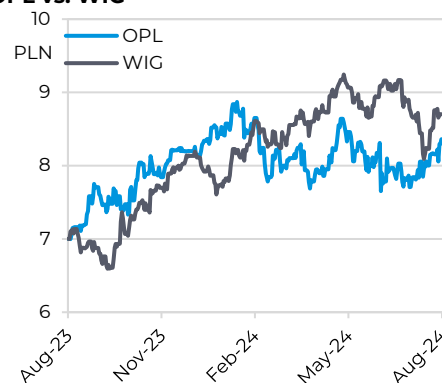
### Shareholders

Orange S.A.	50.7%
Others	49.3%

### About

Orange Polska is a leading telecommunications provider in Poland with 17.9 million mobile users, 2.8 million broadband users, and 2.4 million fixed voice users as of June 2024. This was equivalent to respective market shares of 29% in mobile and 46% 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	10.70	10.00	buy	buy

company	Current Price	Target Price	Upside
Orange Polska	8.36	10.70	+27.9%

Forecast update	2024E	2025E	2026E
	Revenue	-3.1%	-3.2%
eEBITDAaL	+0.7%	+0.5%	+0.1%
Net Profit	-7.7%	-1.0%	-1.4%

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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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**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 recommendations for Orange Polska in the 12 months prior to this publication:**

**Orange Polska (Paweł Szpigiel)**

Rating	buy	buy	buy	buy
Rating date	2024-05-06	2023-12-01	2023-10-31	2023-10-02
Target price (PLN)	10.00	9.70	9.60	9.40
Price on rating day	7.95	8.03	7.66	7.47



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