

Orange	
Ticker Site BiG	ORA
Ticker BiGlobal Trade	ORA
Ticker BT24	ORA
Ticker BiG Power Trade	ORA
P/E Ratio 2018E	12.71
P/BV Ratio	1.48
EV/EBITDA	6.11

Source: Bloomberg;

Price and Performance (Values in EUR)	
Price	13.55
52 week high	15.24
52 week low	13.32
YTD	-6.4%
Average daily volume (un)	5,898,079
Market Capitalization (mn)	36,044
Beta	0.80
Dividend	0.30
EPS (Bloomberg Est.)	0.90

Source: Bloomberg;

Analysts Consensus (last 3 months)	
Buy	23
Hold	8
Sell	1

Source: Bloomberg;

Financial Data	
Sales (EUR mn)	41,096
EBITDA (EUR mn)	11,757
Number of Employees	138,038
ROA	2.1%
D/E	0.99
Dividend Yield	5.17%

Source: Bloomberg;

## Notes:

All quotes were updated in Bloomberg at 08h28 of October 9th, 2018.

## Relevant Information:

Use the following link to view our most recent publications:

<https://www.big.pt/InformacaoMercado/s/TradingIdeas/Index/-1>

Use the following link to see our recommendation history:

<https://www.big.pt/pdf/Newsletters/nld.pdf>

## Research:

research@big.pt

## Orange

### Description

Orange is the French incumbent telecommunication company that is present also in 8 other European countries, in Africa and in the Middle East. It had 273mn retail customers at end of 2017. It also provides telecommunications services to multinational companies. The French state still has a stake of 23% in the company.

Orange trades in the French stock exchange with a market capitalization of EUR 36bn and has more than 138,000 employees.

### SWOT Analysis

<b>Strengths</b> <ul style="list-style-type: none"> <li>Diversification across multiple regions</li> <li>Mobile growth in Africa</li> </ul>	<b>Weaknesses</b> <ul style="list-style-type: none"> <li>Price competition in Europe</li> </ul>
<b>Opportunities</b> <ul style="list-style-type: none"> <li>Transition of customers to fibre (higher margins)</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>Possible dividend cut</li> <li>Rise in interest rates</li> </ul>

### Relative Valuation

Orange is relatively cheaper than the most direct peers, as Iliad, however that is partially explained by the lower EBITDA margin. Net debt/EBITDA ratio and dividend yield are in line with the sector.

Name	Country	Market Cap (mn)	Currency	P/E 2018E	EV/EBITDA	Div. Yield	NetDebt/EBITDA	Margin EBITDA
KONINKLIJKE KPN NV	NETHERLANDS	9,456	EUR	20.5	7.5	5.6%	2.7	37.7%
BT GROUP PLC	BRITAIN	22,751	GBP	8.8	n.a.	6.7%	n.a.	n.a.
TELECOM ITALIA SPA	ITALY	9,948	EUR	7.0	5.6	n.a.	3.5	38.0%
DEUTSCHE TELEKOM AG-REG	GERMANY	66,303	EUR	14.8	5.7	4.7%	2.4	31.0%
TELEFONICA DEUTSCHLAND HOLDI	GERMANY	10,307	EUR	n.a.	6.7	7.5%	1.1	24.8%
TELEFONICA SA	SPAIN	36,449	EUR	10.1	6.4	5.7%	3.0	32.1%
NOS SGPS	PORTUGAL	2,564	EUR	19.1	5.9	6.0%	1.8	37.9%
VODAFONE GROUP PLC	BRITAIN	40,759	GBP	16.0	5.9	8.7%	1.8	31.6%
ILIAD SA	FRANCE	5,899	EUR	15.1	6.4	0.7%	1.8	35.7%
ORANGE	FRANCE	36,044	EUR	12.7	6.1	4.8%	2.2	28.7%
Average exc. Orange				13.9	6.3	5.70%	2.3	33.61%

Source: Bloomberg; BiG Research

Income Sta. (EUR mn)	2017	2016
France	18052	17945
Europe	11026	10614
Africa & Middle East	5030	4881
Enterprises	7252	7323
Others	-264	155
<b>Revenues</b>	<b>41096</b>	<b>40918</b>
Purchases used in production	18475	18281
Payroll Costs	8572	8866
Depreciation and Amortization	6846	6728
Other expenses and services	2286	2966
<b>Operating Expenses</b>	<b>36179</b>	<b>36841</b>
<b>EBIT</b>	<b>4917</b>	<b>4077</b>
Other costs	1715	2097
Taxes	1088	970
<b>Net Income</b>	<b>2114</b>	<b>1010</b>
<b>Earnings Per Share</b>	<b>0.61</b>	<b>0.15</b>

Source: Bloomberg

Free Cash Flow (EUR mn)	2017	2016
<b>Operational Cash Flow</b>	<b>10174</b>	<b>8750</b>
Business Net Income	2143	1010
Depreciations and Amortizations	6846	6728
Changes in Working Capital	265	-631
Others	920	1643
<b>Investment Cash Flow</b>	<b>-7941</b>	<b>-4879</b>
Capex	-6863	-3727
Short term investments	-1028	-1122
Others	-50	-30
<b>Financial Cash Flow</b>	<b>-2739</b>	<b>-1883</b>
Debt change	-456	-33
Share buyback	34	109
Dividends	-1965	-1855
Other	-352	-104
<b>Change in free cash flow</b>	<b>-506</b>	<b>1988</b>
Other and forex	-40	-322
<b>Cash and equivalents</b>	<b>5809</b>	<b>6355</b>

Source: Bloomberg

Balance Sheet (EUR mn)	2017	2016
<b>Assets</b>	<b>94714</b>	<b>94668</b>
Cash & Equivalents	5810	6355
Receivables	8271	8055
Inventories	827	819
Property Plant & Equipment	26665	25912
Intangible Assets & Goodwill	41434	41758
Other Assets	11707	11769
<b>Liabilities</b>	<b>61772</b>	<b>61494</b>
Short term Debt	10971	9123
Long term Debt	26293	28909
Payables & accrued expense	10178	9918
Other liabilities	14330	13544
<b>Total Shareowner's Equity</b>	<b>32942</b>	<b>33174</b>
<b>Total Equity and Liabilities</b>	<b>94714</b>	<b>94668</b>

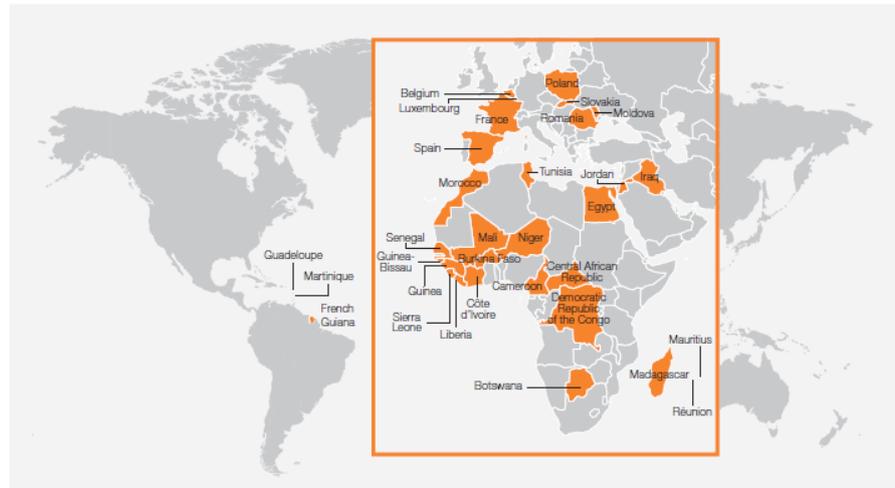
Source: Bloomberg

Source: Bloomberg

## Income Statement

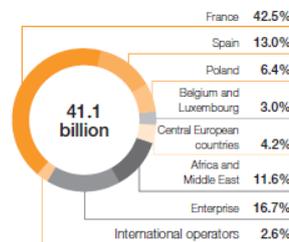
Orange revenues increased by 0.6% in France but had a stronger performance in Europe with Spain growing by 7.1% and Central Europe by 5.7% in 2017. In mobile, revenues were flat due to decline in revenues in France, Poland and Africa & Middle East which were offset by a growth in Spain. Retail fixed services revenue grew mostly in Spain. Orange has been able to achieve an operating income margin of around 18% in France, while in the rest of the regions is around 10%, with Poland and Belgium & Luxembourg being the exception (5% and 2%). Payroll costs declined as Orange has been decreasing the number of employees in France and Poland.

### 1.1.2 Group footprint and key figures

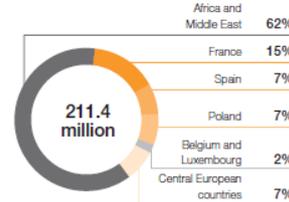


The list of the main consolidated entities of the Orange group at December 31, 2017 is provided in Note 18 to the consolidated financial statements (Section 3.3).

### Revenues (in euros)



### Mobile customers



### Broadband Internet Customers



## Free Cash Flow

The company invests between 15% and 20% of revenues in capex in most regions, being Africa and Middle East the exception with around 25% capex over revenues. Capex jointly with telecommunication licenses is around EUR 8bn per year. In 2017 it paid around EUR 2bn in dividends corresponding to a dividend yield of around 5% and decreased its debt by almost EUR 500mn.

## Balance Sheet

In 2017 net debt was around EUR 31.5bn. The company has around 41bn in intangibles.

## First Half of 2018 earnings

In the first half of 2018, Orange's revenues grew by 0.9% yoy while operating income increased by 2.8% to EUR 2.35bn. The 2Q earnings were in line with market estimates.

The company guidance for capex in 2018 was maintained at EUR 7.4bn. It expects to grow the adjusted EBITDA and operating cash flow at a higher rate than in 2017. Dividend will be increased by EUR 0.05 to EUR 0.70. Orange plans to maintain Net Debt/EBITDA ratio around 2x.

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**Management Team**

**Stéphane Richard (CEO and Chairman):** Born in 1961, he has been Chairman and CEO since March 1, 2011. He joined the company in 2009 after being Chief of Staff to the French Minister for the Economy, Industry and Employment. He graduated from HEC Paris. He will stand trial over a EUR 405mn payout made by the French state when he was in the government.

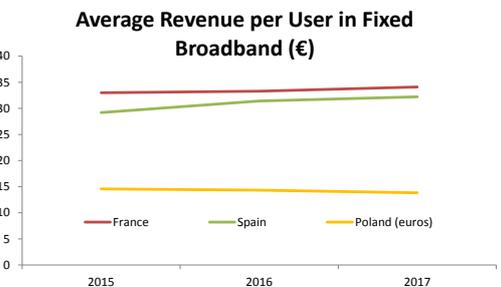
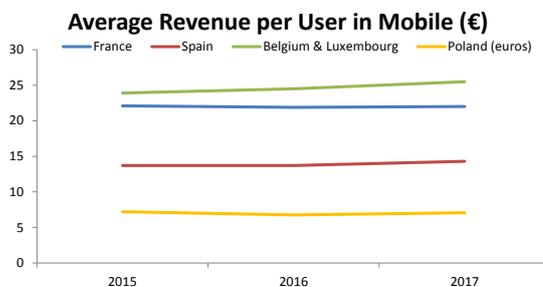
In 2017 Stéphane received from Orange around EUR 1.7mn, including salary (EUR 900,000), variable compensation (EUR 523,250) and stocks (EUR 300,000).

**Plans**

Broadband Plans with mobile in France				
Name	Open Up 2h 100MB Fiber	Open Up 50GB Fiber	Open Up 100GB Fiber	Open Up 150GB Fiber
Promotional price during first year per month	26.99 €	35.99 €	48.99 €	78.99 €
Price after 1 year per month	50.99 €	69.99 €	82.99 €	112.99 €
Loyalty program	12 months	12 months	12 months	12 months
Mobile phone	2h of calls, 100MB	Unlimited calls, 50GB	Unlimited calls, 100GB	Unlimited calls, 150GB
Internet	1GB	1GB	1GB	1GB
Phone	Unlimited for fixed and mobile			
Channels	160, Livebox 4 UHD			
Others	Wi-Fi signal extender	Wi-Fi signal extender	Wi-Fi signal extender	Wi-Fi signal extender

Mobile Plans in France				
Promotional price during first year per month	2.99 €	19.99 €	34.99 €	64.99 €
Price after 1 year per month	7.99 €	34.99 €	49.99 €	79.99 €
Loyalty program	12 months	12 months	12 months	12 months
Mobile internet included	100MB	50GB	100GB	150GB
Calls and sms	2h of calls, sms unlimited	Unlimited	Unlimited in Europe, calls for US	Unlimited in Europe, US and China

Source: Company data



**M&A**

**Acquisition of Basefarm Holding:** In July of 2018 the company acquired Basefarm in order to become a bigger player in the cloud computing services market in Europe. The value was EUR 350mn.

**Acquisition of Groupama Banque:** Orange bought a 65% stake in Groupama banque for an undisclosed sum. It later rebranded it to Orange Bank and the goal is to attract customers to its digital bank offerings.

**Sale of EE to BT:** In 2016 it completed the sale of a 50% stake in EE (a British mobile operator) to BT, receiving EUR 4.5bn in cash and a 4% stake in BT.

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▲ **Risks**

**Rise in interest rates:** Due to the company’s high leverage and capex requirements, as the interest rates rise, its debt cost will rise and the company may find harder to refinance itself or finance new capex or M&A.

**Pricing competition:** Telecom companies have been battling fiercely for customers by decreasing prices and increasing their offers. If the decline in ARPU (average revenue per user) continues the company business model may become unsustainable.

▲ **Chart analysis**

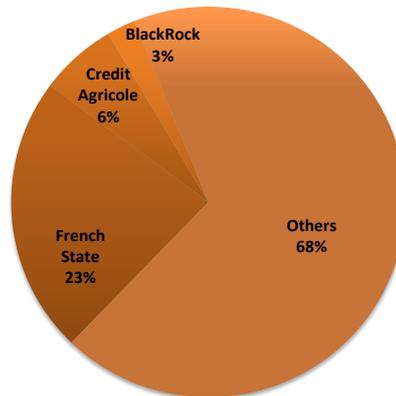


Source: BiGlobal Trade (partner Saxo Bank); BiG Research

▲ **Calendar**

**October 24th, 2018:** Earnings 3Q18

**Shareholders**



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  - Buy, expected absolute return above 15%;
  - Accumulate, expected absolute return between +5% and +15%;
  - Keep/Neutral, expected absolute return between -5% and +5%;
  - Reduce, expected absolute return between -5% and -15%;
  - Sell, expected absolute return below -15%;
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PSI20 Notes in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75.0%
Keep/Neutral	0	0.0%
Reduce/Sell	1	25.0%
<b>Total</b>	<b>4</b>	<b>100.0%</b>

Source: BiG Research

Trading Ideas in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61.1%
Stop Loss	6	33.3%
In Place	1	5.6%
<b>Total</b>	<b>18</b>	<b>100.0%</b>

Pair Trades in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
<b>Total</b>	<b>0</b>	<b>0%</b>

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