

Orange

Price EUR14.08

Lights are turning green

Fair Value EUR17,1 (+21%)

BUY

Coverage initiated

We are initiating coverage of Orange with a Buy rating and a fair value of €17.1. We believe that Orange is currently trading at an unjustified discount. Orange is efficiently managing its national business model while the French market is getting back on track. Its healthier balance sheet makes it possible to seize external growth opportunities, especially on an international scale, and we consider a dividend increase to be likely by 2017.

ANALYSIS

- Thanks to a **French market showing signs of recovery** and to its **unique premium positioning**, Orange France appears to be in a position to make up for the **revenue losses** related to the **roaming agreement with Free** and to **DSL unbundling**. We anticipate a revenue decline of **0.6%** in 2016, vs. **-0.8%** in 2015, with a stabilization expected by 2017. **EBITDA should stabilise in 2016**, before going slightly up in 2017 and 2018.
- International markets are expected to fuel the Group's growth** in the coming years. After **+5.2%** in 2015, we anticipate a further revenue increase of **3.6%** over the period 2016-2018 in the **AMEA area**, while the Spanish division, invigorated by the acquisition of Jazztel, should help Orange achieve **+2.6%** growth by 2018 in Europe. Furthermore, a **debt ratio below 2x** should enable the Group to carry out new selective **external growth** transactions.
- We forecast an **EBITDA increase of 2.8% in 2016**, to **€12.77bn**, and then **+1.7%** over 2017-2018. In our opinion, **capex will raise to €6.9bn** in 2016, then to **€7.1bn** in 2017 and 2018 as the company will invest massively in its French and Portuguese fibre networks.
- We consider a **dividend increase from €0.6 to €0.8** per share in 2017 to be conceivable, as this would bring the **dividend yield closer to that of market comparables, i.e. 5.6%**.

VALUATION

- Orange is now trading at 4.7x EV/EBITDA 2016, implying a 30% discount to its peers.
- We initiate Orange with a BUY rating and a fair value of EUR17.1, ie 21% premium vs current price.

NEXT CATALYSTS

- Orange H1 results on July 27th.

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Bloomberg	ORA FP
Reuters	ORAN.PA
12-month High / Low (EUR)	16.9 / 12.9
Market Cap (EURm)	37,440
Ev (BG Estimates) (EURm)	60,623
Avg. 6m daily volume (000)	7 862
3y EPS CAGR	2.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.0%	-8.7%	-8.1%	-9.1%
Telecom	-12.9%	-10.7%	-16.3%	-17.1%
DJ Stoxx 600	-9.4%	-5.5%	-13.1%	-13.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	40,236	41,220	41,684	41,977
% change		2.4%	1.1%	0.7%
EBITDA	12,426	12,772	12,962	13,197
EBIT	0.0	0.0	0.0	0.0
% change		NM	NM	NM
Net income	2,958	2,894	3,122	3,172
% change		-2.1%	7.9%	1.6%

	2015	2016e	2017e	2018e
Operating margin	11.8	11.8	12.2	12.5
Net margin	7.4	7.0	7.5	7.6
ROE	8.6	7.8	8.3	8.3
ROCE	4.3	4.1	4.4	4.4
Gearing	110.2	105.5	102.6	100.5

(EUR)	2015	2016e	2017e	2018e
EPS	0.98	0.96	1.04	1.06
% change	-	-2.4%	8.8%	1.8%
P/E	14.3x	14.7x	13.5x	13.3x
FCF yield (%)	8.1%	4.4%	6.9%	6.9%
Dividends (EUR)	0.59	0.60	0.70	0.80
Div yield (%)	4.2%	4.3%	5.0%	5.7%
EV/Sales	1.6x	1.5x	1.4x	1.4x
EV/EBITDA	5.1x	4.7x	4.6x	4.5x
EV/EBIT	NS	NS	NS	NS



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Distribution of stock ratings

BUY ratings 72%

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