

26th July 2016

TMT

Orange

Price EUR14.47

H1 results globally in line, high CAPEX but strong commercial performance in France.

Fair Value EUR17.1 (+18.2%)

BUY

| | |
|----------------------------|-------------|
| Bloomberg | ORA FP |
| Reuters | ORAN.PA |
| 12-month High / Low (EUR) | 16.9 / 12.9 |
| Market Cap (EURm) | 38,478 |
| Ev (BG Estimates) (EURm) | 61,660 |
| Avg. 6m daily volume (000) | 7 573 |
| 3y EPS CAGR | 2.6% |

This morning Orange SA has published H1 2016 results globally in line with consensus. Revenues and EBITDA are still growing, commercial performance in France was very good and results for Spain were way above expectations, but Poland and AMEA appeared a little disappointing. Operating cash flow was impacted by higher than expected CAPEX in Q2, but said to be in line with the Orange Essentials 2020 plan. Orange confirms its guidance for 2016 EBITDA above 2015, and a ratio of net debt/EBITDA of around 2x.

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | 1.6% | -3.2% | -8.7% | -6.6% |
| Telecom | -1.4% | -6.6% | -9.3% | -12.5% |
| DJ Stoxx 600 | -0.3% | -2.3% | 0.6% | -7.0% |

ANALYSIS

- **Global results: H1 revenues came out at EUR20.079bn** (vs consensus: EUR20.166bn) **up 0.3% yoy**, with **Q2 stable yoy**, compared with +0.6% yoy in Q1. **H1 restated EBITDA came out at EUR5.913bn** (vs consensus: EUR5.921bn) **down -0.6% yoy**, with **Q2 up 0.1% yoy**, compared with -1.6% yoy in Q1. **H1 operating cash flow came out at EUR2.746bn** (vs consensus: EUR2.836bn) **down -8.9% yoy**, with **CAPEX up 7.8% yoy**.
- **France H1 revenues came out at EUR9.376bn** (vs consensus: EUR9.413bn) **down 1.2% yoy**, with **Q2 down 1.7% yoy**, compared with -0.7% yoy in Q1 (in Q2 2016 mobile services revenues were down 3.8% yoy vs -2.4% in Q1, and fixed retail services revenues were down -1.1% yoy vs -0.7% in Q1). **H1 restated EBITDA came out at EUR3.238bn** (vs consensus: EUR3.283bn) **down 2.6% yoy**, compared with **2.7% yoy** in H2 2015.
- **In France**, mobile postpaid net adds reached **152k in Q2**, vs 41k in Q1, and **76k in Q2 2015**. Sosh net adds reached **114k in Q2**, vs 84k in Q1, and 111k in Q2 2015. Postpaid ARPU was EUR25.8 in Q2, down 4.4% yoy vs -4.4% in Q1. Orange delivered **very good commercial performance**, but the **mobile market is still very much under promotional pressure**.
- In France, Orange delivered **very good commercial performance**. Broadband net adds reached **93k in Q2**, vs 96k in Q1, and **76k in Q2 2015**. FTTH net adds reached **106k in Q2**, vs 115k in Q1, and **82k in Q2 2015**. Broadband ARPU was EUR33.1 in Q2, stable **yoy vs -0.6% in Q1**. This is a good sign showing a **gradual stabilisation in the fixed market**.
- **Spain H1 EBITDA came out way above expectations at EUR625m** (vs consensus: EUR589m) **up +15.4% yoy**.
- **Orange confirms** its guidance for 2016 EBITDA above the 2015 level, and net debt/EBITDA of around 2x.

| 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 | 14.7x | 15.1x | 13.9x | 13.6x |
| FCF yield (%) | 7.9% | 4.3% | 6.7% | 6.7% |
| Dividends (EUR) | 0.59 | 0.60 | 0.70 | 0.80 |
| Div yield (%) | 4.1% | 4.1% | 4.8% | 5.5% |
| EV/Sales | 1.6x | 1.5x | 1.5x | 1.5x |
| EV/EBITDA | 5.2x | 4.8x | 4.7x | 4.6x |
| EV/EBIT | NS | NS | NS | NS |

VALUATION

- We are maintaining our BUY recommendation with a Fair Value of EUR17.1.

NEXT CATALYSTS

- Q3 2016 results on 25th October 2016.

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| | |
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