

## Orange

Price EUR13.82

Follow up on H1 results: good performance in a bad market.

Fair Value EUR17,1 (+24%)

BUY

Bloomberg	ORA FP
Reuters	ORAN.PA
12-month High / Low (EUR)	16.9 / 12.9
Market Cap (EUR)	36,762
Ev (BG Estimates) (EUR)	59,945
Avg. 6m daily volume (000)	7 600
3y EPS CAGR	2.6%

Looking back at H1 results, we believe that although mobile services revenues in France were disappointing mostly due to regulatory factors, the publication confirms Orange's strong position on the French market. Other reassuring comments from Orange during the H1 results conference call make us confident in the ability of the company to manage the French challenge and achieve its targets. We consider yesterday's share price decline following the H1 publication overdone, driving the stock down to a low 4.7x EV/EBITDA 2016e. It reinforces our Buy recommendation and provides an attractive entry point. We stick to our Fair Value of EUR17.1.

## ANALYSIS

- French mobile service revenues were **disappointing**, down **5.2% yoy in Q2**, vs **-2.4% in Q1**, mostly due to the impact of **roaming regulation**, and a still **highly competitive market**. Nevertheless Orange posted an **outstanding commercial performance**, with **152k** postpaid net adds (of which **38k** net adds on the high-end segment) compared with **41k** in Q1 and **76k** in Q2 2015. Moreover, during the conference call, Orange highlighted that mobile ARPU would be **have grown slightly** excluding the impact of international roaming. Thanks to its unique position, Orange managed to **achieve a high performance although market conditions are still difficult**. Rival publications in August should help highlight Orange's strong position on the market.
- Management added that **H2 should be commercially favorable** to Orange, with the expected launch of **iphone 7** in September and the **X-mas market** in December, traditionally benefiting high-end mobile offers. The impact of roaming should be visible for three more quarters, and we believe promotional intensity should gradually fade, but not until SFR fixes a number of quality of service issues, that is not until H1 2017 in our opinion.
- We believe the good performance of Orange in fixed in France should **partially offset the disappointment in mobile**: the revenue trend is improving, **up 0.7% in Q2 vs 0.1% in Q1**, and commercial performance was **excellent**, with **93k net adds**, of which **+106k in Fiber**. These results highlight Orange's **unique position on the fixed market**, but also a **better market outlook**, following recent price increases by Orange, Bouygues Telecom and SFR. In the conference call, Orange stated that more than 50% of its fiber customers choose high end offers. The impact of the new premium 4k box should be more material in Q3 and beyond. Orange said that it was **not worried by ARCEP's consultation** on the fiber regulatory framework, that it expects **no revolution** from it, and that it would firmly **oppose any asymmetrical regulation**.
- Spain posted a very good performance, with **H1 EBITDA up 15.4% yoy**. According to Orange, the result was driven by **good market conditions** as well as the company's **intrinsic performance** since the acquisition of Jazztel. Orange noted that the on-going merger between Yoigo and Mas Movil was **not a major threat**, with limited customer reach, in line with the management expectations.
- The slowdown in AMEA revenue growth **to +2.4% in Q2 vs +4.4% in Q1**, was mostly explained by **strengthened requirements to verify customer identity**, particularly in DRC. Orange said the impact was now **behind us**, with customer net adds **rising again** in June.
- Regarding Italy, Stéphane Richard very clearly said the company "was **not working on anything** in Italy", neither with Telecom Italia nor with Vivendi (which Vivendi's CEO Arnaud de Puyfontaine later confirmed). Stéphane Richard said Orange has "**no project, no agenda**" regarding this country. He added the Italian situation was "rather **complicated**".

## VALUATION

- Orange is now trading at 4.7x EV/EBITDA 2016e, we stick to our Buy recommendation with a Fair Value of EUR17.1

## NEXT CATALYSTS

- SFR publication on 9th August, Iliad and Bouygues Telecom publication on 31st August.

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.1%	-7.7%	-12.9%	-10.8%
Telecom	5.1%	-6.8%	-9.0%	-12.9%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

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				
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	14.1x	14.4x	13.3x	13.0x
FCF yield (%)	8.3%	4.5%	7.0%	7.0%
Dividends (EUR)	0.59	0.60	0.70	0.80
Div yield (%)	4.3%	4.3%	5.1%	5.8%
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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