

## Orange

Price EUR14.09

Good Q3 results, slightly above expectations; back to revenue and EBITDA growth.

Fair Value EUR17.1 (+21%)

BUY

Bloomberg	ORA FP
Reuters	ORAN.PA
12-month High / Low (EUR)	16.9 / 13.1
Market Cap (EUR)	37,467
Ev (BG Estimates) (EUR)	60,650
Avg. 6m daily volume (000)	6 089
3y EPS CAGR	2.6%

This morning, Orange SA has published good Q3 2016 results, slightly above consensus. Revenues and EBITDA have returned to growth. Commercial performance in France is still very good. While mobile ARPU is still struggling, Fixed ARPU is now back to growth in France. And revenue growth is accelerating this quarter in Spain. Orange confirms its guidance for 2016 EBITDA above 2015, and a ratio of net debt/EBITDA of around 2x. The group plans to pay a dividend of EUR0.6 per share for 2016, as expected.

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.5%	-2.6%	-5.8%	-9.0%
Telecom	-2.6%	-4.2%	-10.5%	-16.2%
DJ Stoxx 600	-0.3%	1.2%	-1.2%	-5.9%

## ANALYSIS

- **Global results: Q3 revenues came out at EUR10.323bn** (vs consensus: EUR10.271bn) **up 0.8% yoy**, compared with stable yoy in Q2. **Q3 restated EBITDA came out at EUR3.597bn** (vs consensus: EUR3.576bn) **up 1.6% yoy**, compared with 0.1% yoy in Q2. **Q3 operating cash flow came out at EUR2.052bn** (vs consensus: EUR1.976bn) **up +3.6% yoy**, with **CAPEX up 0.5% yoy**.
- **France Q3 revenues came out at EUR4.768bn** (vs consensus: EUR4.721bn) **down -0.6% yoy**, compared with -1.7% yoy in Q2.
- On the mobile side, service revenues are down 3.8% yoy in Q3 vs -5.2% in Q2. Trend is improving thanks to good commercial performance over the last quarters, but ARPU is still under pressure, with roaming effects in Q3. Mobile postpaid net adds reached **187k in Q3**, vs 152k in Q2, and **234k in Q3 2015**. Sosh net adds reached **73k in Q2**, vs 114k in Q2, and 95k in Q3 2015. Postpaid ARPU was EUR25.5 in Q2, down **5.2% yoy** vs **-4.4%** in Q2.
- On the fixed side, retail service revenues were stable in Q3 vs -1.4% in Q2. Commercial performance is still very high, while ARPU is growing yoy for the first time in years. Broadband net adds reached **133k in Q3**, vs 93k in Q2, and **116k in Q3 2015**. FTTH net adds reached **127k in Q3**, vs 106k in Q2, and **107k in Q3 2015**. Broadband ARPU was EUR33.2 in Q2, up **0.3% yoy** vs **stable** in Q2.
- **In Spain, Q3 revenues came out at EUR1.288bn** (vs consensus: EUR1.274bn) **up +7.8% yoy**. Growth is still accelerating vs Q2 at **+6.2% yoy**. **In AMEA, Q3 revenues came out at EUR1.371bn** (vs consensus: EUR1.368bn) **up +2.5% yoy**, a little lower than expected.
- **Orange confirms** its guidance for 2016 EBITDA above the 2015 level, and net debt/EBITDA of around 2x. The group plans to pay a dividend of EUR0.6 per share for 2016, as expected.

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	14.3x	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	5.2x	4.7x	4.6x	4.5x
EV/EBIT	NS	NS	NS	NS

## VALUATION

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

## NEXT CATALYSTS

- Annual 2016 results expected by end February 2017.



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