

Orange

Feedback from the road with Orange management

Reiterate Rating: BUY | PO: 13.50 EUR | Price: 10.53 EUR

Feedback from Orange management meetings - positive

This week, we had the opportunity to host meetings between Orange management and investors in Boston & New York, leaving us incrementally positive on the business outlook and re-rating potential. As we discussed in [Ticking all boxes – double-upgrade to Buy](#), we believe strong cash flow growth post (fibre) capex peak at attractive valuation, good infrastructure ownership and consolidation/synergies in Spain form a compelling investment case for Orange and reiterate our Buy recommendation (€13.50 PO).

Key focus: France/Masmoil/infra/shareholder returns

We had the opportunity to accompany Orange CEO Christel Heydemann & CFO Laurent Martinez to meetings with US investors. We believe focus was on: (1) France. Selective initiatives, '23 price hikes & upselling to fibre/5G will continue to boost service revenue trends (retail services ex PSTN growth expected +2-4%), better energy/wage outlook allows for '24 EBITDAaL to stabilise. While 4-to-3 consolidation appears unlikely in the near term, a move to three-player markets across Europe will be necessary in the longer term to facilitate sufficient telco investments. (2) Cost savings: copper decommissioning ('24/25 accelerating/'30 over) and AI efficiencies (e.g. network management/customer interactions). (3) Orange-Masmoil. Confidence on synergies is high, implementation costs are limited, initial focus is on de-leveraging ahead of potential re-consolidation (despite a better funding environment). Terms of wholesale option/spectrum remedy to Digi seem reasonable/balanced and Orange thinks it should not fuel competition in Spain further. (4) Infra ownership. See clear benefits to keep (tower) assets on-balance sheet to safe-guard FCF; in no need to monetise. For new build, open to discussions to ensure best returns. (5) Shareholder returns. Clear focus to execute on FCF delivery, that should drive a re-rating and be accompanied by progressive divi payments. Investor questions also circled around excess FCF returns (e.g. buybacks), but no board consensus yet.

Attractive valuation, >30% upside potential at PO

We estimate that Orange currently trades on 5x '24E EV/EBITDA, 12x EV/OpFCF, a 9% Equity FCF yield and a 7% dividend yield compared to the sector on 6x, 13x, 7% & 5%.

Estimates (Dec) (EUR)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	0.80	0.92	1.26	1.45	1.61
EPS Change (YoY)	-46.1%	14.9%	37.7%	15.1%	10.8%
Dividend / Share	0.70	0.72	0.75	0.77	0.79
ADR EPS (Adjusted Diluted - US\$)	0.84	0.99	1.37	1.58	1.75
ADR Dividend / Share (US\$)	0.74	0.78	0.82	0.84	0.86
Valuation (Dec)					
P/E	13.2x	11.5x	8.34x	7.24x	6.54x
Dividend Yield	6.65%	6.84%	7.12%	7.31%	7.50%
EV / EBITDA*	5.67x	5.64x	5.46x	5.28x	5.15x
Free Cash Flow Yield*	6.38%	8.95%	10.5%	11.9%	13.7%

* For full definitions of *IQmethod*SM measures, see page 5.

07 March 2024

Equity

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Stock Data

Price (Common / ADR)	10.53 EUR / 11.52 USD
Price Objective	13.50 EUR / 14.53 USD
Date Established	16-Feb-2024 / 16-Feb-2024
Investment Opinion	A-1-7 / A-1-7
52-Week Range	9.98 EUR-11.87 EUR
Market Value (mn)	28,010 EUR
Shares Outstanding (mn)	2,660.1 / 2,660.1
Average Daily Value (mn)	52.26 USD
Free Float	77.0%
BofA Ticker / Exchange	FNCTF / ENP
BofA Ticker / Exchange	ORAN / NYS
Bloomberg / Reuters	ORA FP / ORAN.PA
ROE (2024E)	10.6%
Net Dbt to Eqty (Dec-2023A)	86.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

Exhibit 1: Acronyms used in the report

List of acronyms and explanations

Acronym	Explanation
AI	Artificial Intelligence
EBITDAaL	EBITDA after leases
PSTN	Public Switched Telephone Network

Source: BofA Global Research

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 07 March 2024 12:30AM EST

iQprofileSM Orange

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(EUR Millions)					
Sales	43,480	44,132	45,131	45,576	45,879
EBITDA Adjusted	12,963	13,035	13,459	13,912	14,282
Depreciation & Amortization	(7,035)	(7,312)	(7,601)	(7,485)	(7,335)
EBIT Adjusted	5,928	5,723	5,858	6,426	6,947
Net Interest & Other Income	(920)	(1,206)	(997)	(889)	(827)
Tax Expense / Benefit	(1,265)	(871)	(1,316)	(1,459)	(1,605)
Net Income (Adjusted)	2,145	2,440	3,360	3,869	4,286
Average Fully Diluted Shares Outstanding	2,687	2,661	2,661	2,661	2,661

Key Cash Flow Statement Data					
Net Income (Reported)	2,145	2,440	3,360	3,869	4,286
Depreciation & Amortization	7,035	7,312	7,601	7,485	7,335
Change in Working Capital	(284)	319	0	0	0
Deferred Taxation Charge	0	0	0	0	0
Other CFO	1,498	373	(209)	(379)	(363)
Cash Flow from Operations	10,394	10,444	10,752	10,975	11,258
Capital Expenditure	(7,335)	(6,783)	(6,926)	(6,814)	(6,629)
(Acquisition) / Disposal of Investments	(104)	(1,959)	25.0	25.0	0
Other CFI	(981)	(521)	(373)	(499)	(373)
Cash Flow from Investing	(8,420)	(9,263)	(7,274)	(7,289)	(7,003)
Share Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	(2,165)	(2,230)	(2,321)	(2,419)	(2,487)
Increase (decrease) debt	1,288	(646)	815	926	1,426
Other CFF	(2,105)	36.2	(1,137)	(1,258)	(1,758)
Cash Flow from Financing	(2,982)	(2,840)	(2,643)	(2,750)	(2,819)
Total Cash Flow (CFO + CFI + CFF)	(1,008)	(1,659)	835	936	1,436
FX and other changes to cash	(1,609)	1,272	(20.0)	(10.0)	(10.0)
Change in Cash	(2,617)	(387)	815	926	1,426
Change in Net Debt	3,905	(259)	0	0	0
Net Debt	30,628	30,368	30,368	30,368	30,368

Key Balance Sheet Data					
Property, Plant & Equipment	31,640	33,193	33,193	33,193	33,193
Goodwill	23,113	23,775	23,775	23,775	23,775
Other Intangibles	14,946	15,098	15,098	15,098	15,098
Other Non-Current Assets	13,148	12,744	12,744	12,744	12,744
Trade Receivables	6,305	6,013	6,013	6,013	6,013
Cash & Equivalents	6,004	5,618	6,433	7,359	8,785
Other Current Assets	14,494	13,611	13,611	13,611	13,611
Total Assets	109,650	110,052	110,867	111,793	113,219
Long-Term Debt	31,930	30,535	31,350	32,276	33,703
Other Non-Current Liabilities	13,541	13,892	13,892	13,892	13,892
Short-Term Debt	4,702	5,451	5,451	5,451	5,451
Other Current Liabilities	24,521	25,076	25,076	25,076	25,076
Total Liabilities	74,694	74,953	75,769	76,694	78,121
Total Equity	34,956	35,098	35,098	35,098	35,098
Total Equity & Liabilities	109,650	110,052	110,867	111,793	113,219

Business Performance*					
Return On Capital Employed	4.72%	5.17%	5.11%	5.59%	5.96%
Return On Equity	6.69%	7.67%	10.6%	12.2%	13.5%
Operating Margin	11.0%	11.3%	13.6%	14.8%	15.8%
Free Cash Flow (MM)	1,785	2,506	2,941	3,320	3,848

Quality of Earnings*					
Cash Realization Ratio	4.85x	4.28x	3.20x	2.84x	2.63x
Asset Replacement Ratio	1.04x	0.93x	0.91x	0.91x	0.90x
Tax Rate	32.6%	23.2%	25.5%	25.0%	25.0%
Net Debt/Equity	87.6%	86.5%	86.5%	86.5%	86.5%
Interest Cover	6.44x	4.75x	5.87x	7.23x	8.40x

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Services-Wireline

Company Description

Orange is the incumbent provider of telecom services in France and also owns a broad portfolio of international telecoms assets in both Europe and Africa, the largest of which are in Spain and Poland. The Paris-listed Group also operates a large corporate / IT services business and a tower infrastructure unit.

Investment Rationale

We rate Orange Buy. We like the French incumbent's position in the fiber-to-the-home (FTTH) roll-out curve and see better competitive trends at home/growth from abroad combined with lower capex as drivers of strong FCF generation. With a growing (and well-covered) dividend in the future, we believe that Orange can re-rate towards the high-quality names in the sector. Meanwhile, consolidation in Spain and having one of the last 100%-owned tower assets both provide upside potential.

Stock Data

Shares / ADR	1.00
Price to Book Value	0.9x



Price objective basis & risk

Orange (FNCTF / ORAN)

Our PO for Orange is €13.5 (US\$14.53 ADR), based on a sum-of-the-parts (SOTP) analysis, in which businesses are valued on a multiple or discounted cash flow (DCF) basis and Orange's Poland unit is marked to market. We note that for Spain we use a weighted valuation between a sector-implied multiple and the Orange-Masmovil target valuation. For Orange Bank, we incorporate the remaining FCF before an exit from 2025.

The SOTP is further adjusted for minorities, associates, hybrids, pension, provisions as well as the net present value (NPV) of spectrum payments and renewals. We also apply a 10% conglomerate discount in line with the rest of our coverage for complex incumbents.

Downside risks to our PO are (1) mobile and fixed pricing pressure, (2) failure to execute on cost cutting, (3) regulatory hurdles to in-market consolidation in Spain and (4) digressing to far from its core (European) communications business.

Upside risks to our PO are (1) market consolidation in Spain or France, (2) re-rating from a sustainably growing dividend profile, (3) improving competition in France and (4) optionality in Orange's mobile infra holdings.

Analyst Certification

I, Titus Krahn, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

BofA Securities is currently acting as Financial advisor to Masmovil Ibercom SA in connection with its proposed 50-50 joint venture with Orange SA, which was announced on March 8, 2022.

EMEA - Telecoms Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BT	BTGOF	BT/A LN	David Wright
	Cellnex	CLNXF	CLNX SQ	David Wright
	Cellnex	CLLNY	CLLNY US	David Wright
	Deutsche Telekom	DTEGY	DTEGY US	David Wright
	Deutsche Telekom	DTEGF	DTE GY	David Wright
	Freenet AG	FRTAF	FNTN GY	Titus Krahn
	Helios Towers plc	HTWSF	HTWS LN	David Wright
	Inwit	IFSUF	INW IM	David Wright
	Orange	FNCTF	ORA FP	Titus Krahn
	Orange	ORAN	ORAN US	Titus Krahn
	Tele2 AB	TLTZF	TEL2B SS	Titus Krahn
	Telecom Italia -RSP	TIAJF	TITR IM	David Wright
	Telecom Italia SPA	TIIAY	TIIAY US	David Wright
	Telecom Italia SPA	TIAOF	TIT IM	David Wright
	Telefonica SA	TEFOF	TEF SQ	David Wright
	Telefonica SA	TEF	TEF US	David Wright
	United Internet AG	UDIRF	UTDI GY	Titus Krahn
	Vodafone Group	VOD	VOD US	David Wright
	Vodafone Group	VODPF	VOD LN	David Wright
NEUTRAL				
	T&T AG	DRHKF	1U1 GY	Titus Krahn
	KPN	KKPNF	KPN NA	Titus Krahn

EMEA - Telecoms Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Telenor	TELNF	TEL NO	Titus Krahn
	Telenor	TELNY	TELNY US	Titus Krahn
UNDERPERFORM				
	Bouygues	BOUYF	EN FP	Titus Krahn
	Elisa	ELMUF	ELISA FH	Titus Krahn
	Liberty Global	LBTYA	LBTYA US	David Wright
	Proximus	BGAOF	PROX BB	Titus Krahn
	Swisscom	SWZCF	SCMN SW	Titus Krahn
	Swisscom	SCMWY	SCMWY US	Titus Krahn
	Telia Company	TLSNF	TELIA SS	Titus Krahn
	Telia Company	TLSNY	TLSNY US	Titus Krahn
RSTR				
	Telefonica Deutschland	TELDF	O2D GY	David Wright

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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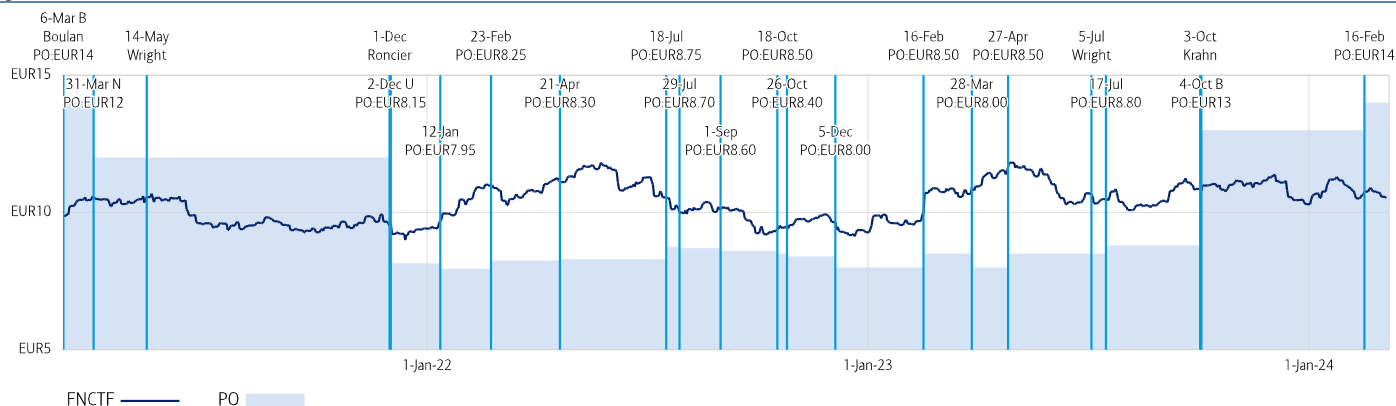
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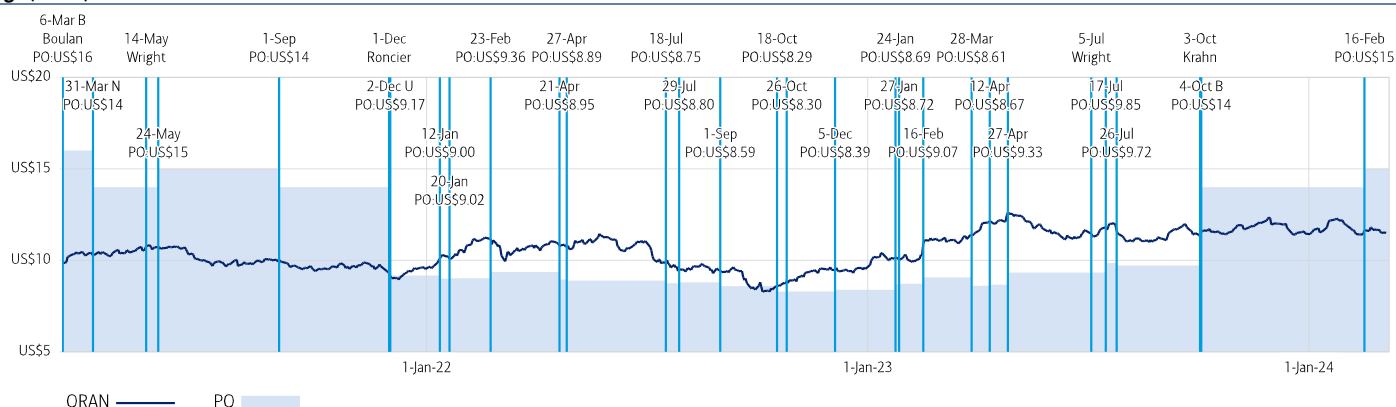
Orange (FNCTF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Orange (ORAN) Price Chart



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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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