HAITONG

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Haitong Bank in a report from August 31 (08:00) updates recommendations for Polish telecoms:

- Keeps Cyfrowy Polsat at NEUTRAL (FV PLN 29.4)
- Keeps Orange Polska at NEUTRAL (FV PLN 7.0)
- Keeps Play Communications at BUY (FV PLN 35.5)

Valuation Methodology

Cyfrowy Polsat
We value Cyfrowy Polsat using a DCF and peer multiples. Using a DCF we arrive at PLN 28/sh while our peer valuation yields PLN 30.7/sh. Our final fair value is PLN 29.4/sh, implying 2% potential upside.

Orange Polska
We value Orange Polska using a DCF and peer multiples where DCF and peers have a 50% weight each. As Orange Polska does not pay dividends, we stopped valuing the stock using the DDM method. Using a DCF, we derive a fair value of PLN 7.8 and using peers of PLN 6.2. Our fair value is PLN 7.0, implying 5% downside potential to the current share price.

Play Communications
We value Play using a DCF, DDM and peer multiples. Using a DCF, we derive a fair value of PLN 35.4; using DDM we arrive at PLN 34.3 and peers of PLN 36.7. Applying an equal weighting to each valuation method we obtain a fair value of PLN 35.5, implying 14% upside potential to the current share price.

Risks to Fair Value

Cyfrowy Polsat

1. Weaker than expected delivery on capex and EBITDA synergies on Netia and Interia acquisition.
2. Weaker than expected monetization of UEFA TV content.
3. Weaker than expected performance of SmartDOM offer.
4. ARPU and margin dilution from bundling offer.
5. Weaker than expected performance of the TV ad market.
6. Erosion of Polsat TV audience share.
7. Weaker than expected macro situation that could cut TV ad budgets

Upside risks

1. Faster than expected ARPU and client net adds
2. Polsat TV visibly outperforming TV ad and TV audience market
3. Higher than expected price for Polkomtel Infrastruktura
4. Further value accretive acquisitions
5. More than expected post-acquisition synergies from Netia, Interia

Orange Polska

1. Weak net adds in FTTx segment as a result of increased competition.
2. Price pressure in mobile broadband offer.
3. Price pressure in B2B market.
4. Competitive offer from CableTV and CPS/NET putting pressure on OPL’s client base in dense areas.
5. ARPU erosion in the mobile voice segment.
6. Acceleration of net adds erosion in fixed-voice and fixed-data.

Upside risks

1. Higher than expected price for FiberCo
2. Faster than expected mobile and Fiber net adds and ARPU increase
3. Bigger than expected cost optimization initiatives
4. OPL selling more than expected real estates and network towers
5. OPL coming back to dividend faster than expected

Play Communications

1. Play forced to remove 100% of Huawei equipment
2. Play stops its focus on the ARPU approach and returns to a more aggressive commercial stance in order to regain SIM card leadership.
3. Play SIM card base starts eroding.
4. Higher than expected price paid for the 3.4-3.8GHz
5. Play cuts the dividend outlook on the back of expensive spectrum and 5G rollout capex.
6. Higher than expected maintenance capex