

Оценка стоимости телекоммуникационной компании на примере Orange S.A.

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Аннотация

В статье представлены результаты анализа теории оценки стоимости компании и рассмотрены преимущества и недостатки основных методов оценки. Затем кратко анализируются текущее экономическое и финансовое состояние компании. После этого используются модель DCF и мультипликаторы сопоставимых для анализа стоимости компании. В конце подводится итог оценки, рассматривается оценочная стоимость акции компании и дается инвестиционная рекомендация по поводу акции.

Ключевые слова: оценка, метод DCF, сравнительная оценка, собственный капитал, средневзвешенная стоимость капитала, Orange S.A., методы оценки.

Valuation of telecom company on example of Orange S.A.

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Annotation

This article examines the theory behind valuation of the company and the advantages and disadvantages of main valuation methods are analyzed. Then the current economic and financial condition of the company are briefly analyzed. After that the DCF model and comparable companies' multiples are built, collected and analyzed. And finally, the conclusions about the analysis are made, current share price is analyzed and observed how far is it from the estimated one, general recommendations are proposed.

Keywords: Valuation, DCF, comparable companies, equity, WACC, Orange S.A., methods of valuation.

Any asset, both financial and real, has a certain value. For successful investment and asset management, not only understanding of what is the value is needed, but also knowledge of those factors which influence it. We can estimate the intrinsic price for any asset, although this is easier for some assets than for others.

Generally speaking, there are three approaches to evaluation. The first of these is the evaluation of the discounted cash flows (DCF) - correlates the value of an asset with the present value

of expected future cash flows attributable to that asset. According to the second approach, defined as a comparable valuation, the value of the asset should be calculated by analyzing the pricing of similar assets, linking it with some variable, or many variables (for example, with income, cash flows, book value, or sales volume). Sometimes analysts also use another method which is based on valuing of net assets of the company, not considering any liabilities. [1]

In DCF (discounted cash flows) model the value of the enterprise is derived via the present value of expected future cash flows of the firm. It is intuitively clear, that bigger future cash flows lead to the higher enterprise value. Consequently, the forecast of future cash flows is one of the crucial elements in DCF valuation. Valuation in DCF models, thereafter, directly depends on the quality of those forecasts, so the underlying assumptions must be proved, conservative and realistic. We can make the forecast on the company's revenue growth, by forecasting the number of the company's customers and the average revenue per user (ARPU). The historical rates of growth will be used for number of subscribers and inflation rates in countries of presence, made by OECD for ARPU growth. Generally, the ARPU has a growth lower or equal to the inflation rate. Revenue forecast is the most important one, because everything else is usually based on revenue. So, all the other indicators and line of financial statements, needed for cash flow calculation, we will forecast in the same way, or by linking them to the revenue growth. [2]

In a comparative evaluation, the value of the asset can be estimated, starting from the price of comparable assets, standardized with the help of a general variable, such as profit (earnings), cash flows, book value or revenue. One illustration of this approach is the use of industry-median "price / earnings" multiple for firm valuation. In contrast to the valuation through the discounting of cash flows, which is aimed at the search for intrinsic value, the comparative evaluation mostly relies on the market. In other words, we assume that the market correctly determines the price of shares on average, but makes mistakes, forming the prices of individual stocks. We can sum up comparables valuation to two methods :

1. Trading comparables;
2. Transaction comparables.

The first method uses market's perception of company's value relative to peers traded in the market. The target company for trading comparables valuation can be public or private. This type of valuation does not take into account any premium for control, because it only shows the current, market price of the firm. Some of the advantages of these method include:

- it is useful for understanding of the company's strength and weaknesses against the peer group,
- helpful for identification of the most highly valued strategy by the markets,

- usually based on forward looking earnings.

However there are some disadvantages, related to these valuation:

1. Finding direct comparables is often challenging;
2. Accounting and product mix differences make comparison difficult;
3. Comparison is often affected by liquidity, earnings forecast and M&A activity in the sector;
4. Only uses forecast earning in near future;
5. Reliant on research quality.

The second type, transaction comparables, is a key valuation method for controlling stake acquisitions. It is used to help decide how much to offer for a business or asset. We will not apply this method, because we are valuing the current market value of the company, but precedent transaction also include premium for control [3].

Orange is a french biggest telecom operator, founded in 1988. It is focused on fixed-line telephony, mobile telephony and Internet services. The company is presented in France, Spain, Belgium, and other 26 countries, including European and African countries. It serves 265 million customers worldwide, including 203 million mobile customers and 19 million fixed broadband customers. Orange is a leading provider of global IT and telecommunication services to multinational companies. Here are some more facts about the company:

- 11th largest world telecom by revenue, and 4th European
- listed on Euronext Paris (symbol ORA) and on the New York Stock Exchange (symbol ORAN)
- S&P: BBB+; Moody's: Baa1; Fitch: BBB+

Company's financial position is considered to be strong, with improving EBITDA profitability.

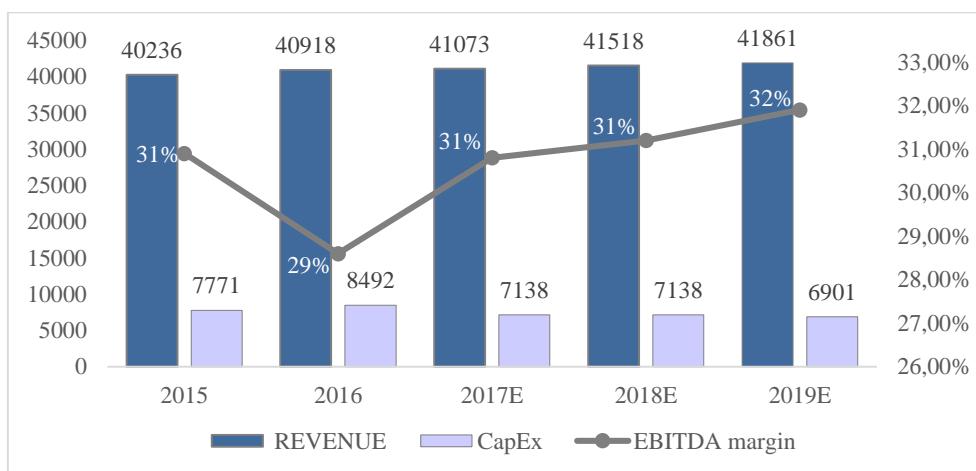


Fig. 1. Financial highlights and forecasts for the 31 March of 2017

Group reported 265 mln customers in the last quarter, showing 1.1% increase in wireless customers and 0.3% in fixed line.

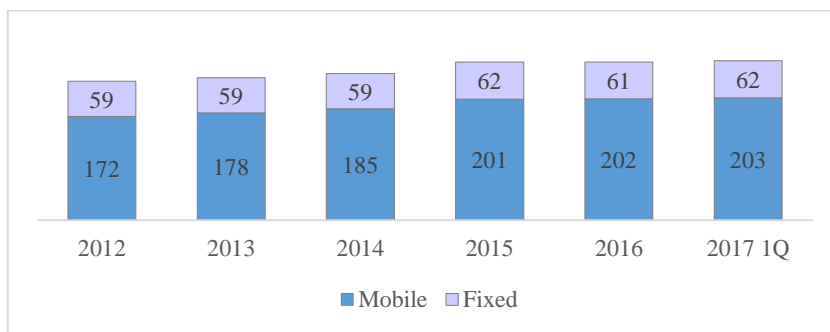


Fig. 2. Group customers for the 31 March of 2017

The company's ARPU has been decreasing from 2012 to 2015, at this time in France the price war among telecom operators has begin. For the previous year the ARPU slightly grew. The easing of the price war, company's expansion to other markets (Spain and A&ME) and CPI growth in EU mostly drove latest growth.

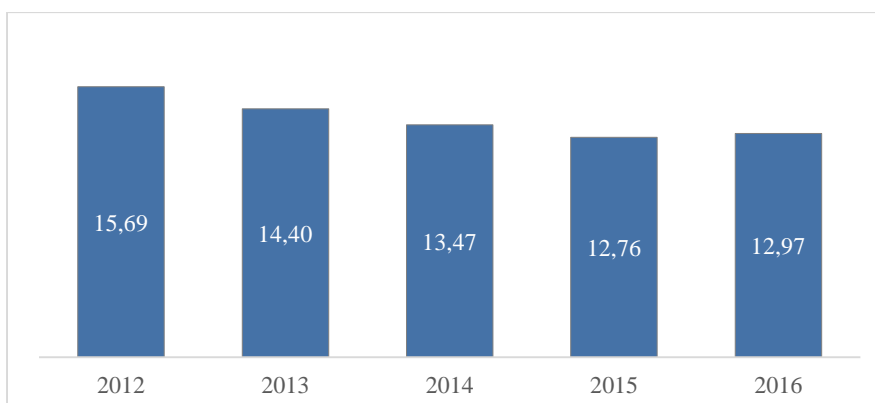


Fig. 3. Average revenue per user, ARPU (EUR) for the 31 March of 2017

Now, after we have examined the company's performance and positioning we can move forward to the valuation.

Orange has the smallest multiples, what probably resulted from a failed takeover bid to Bouygues Telecom, which not only put cross on benefits of telecom consolidation, but also meant a continuation of a price war

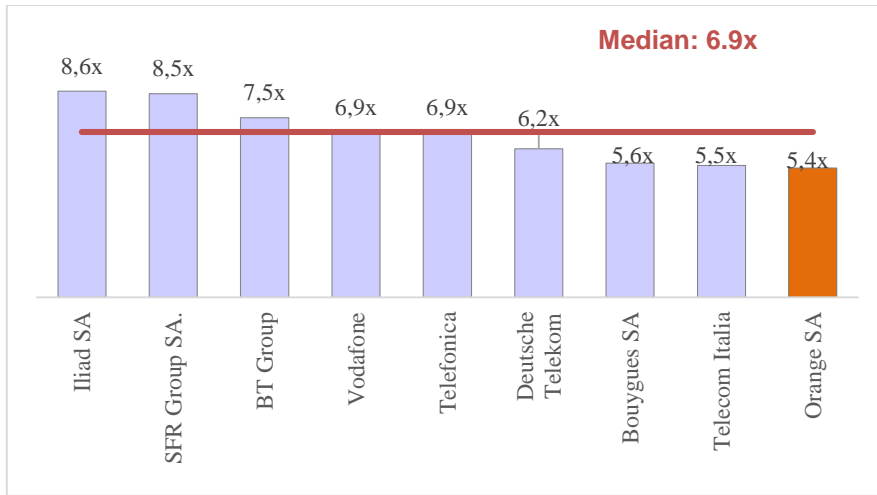


Fig. 4. EV / EBITDA 2017

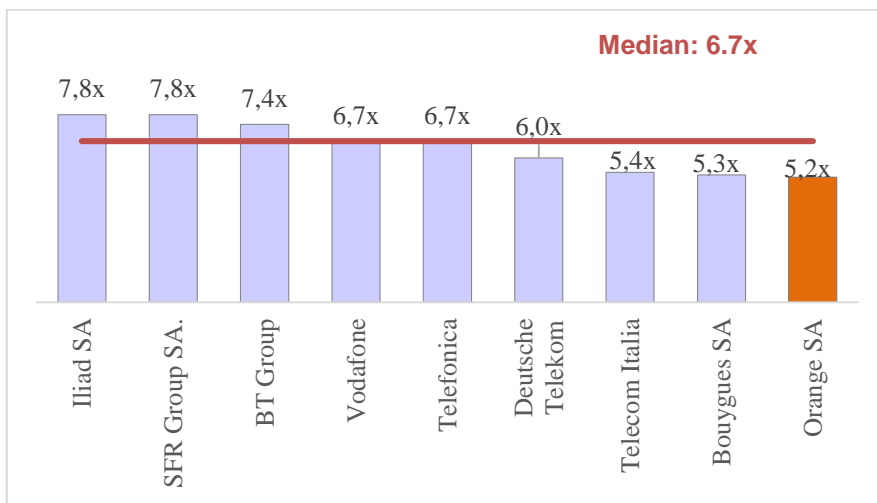


Fig. 5. EV / EBITDA 2018

As can be seen we have compare our company with 8 others: European telecom market players, with 3 of them (Illiad, SFR and Bouygues) coming from France.

The telecom-specific multiple for Orange is also very low.

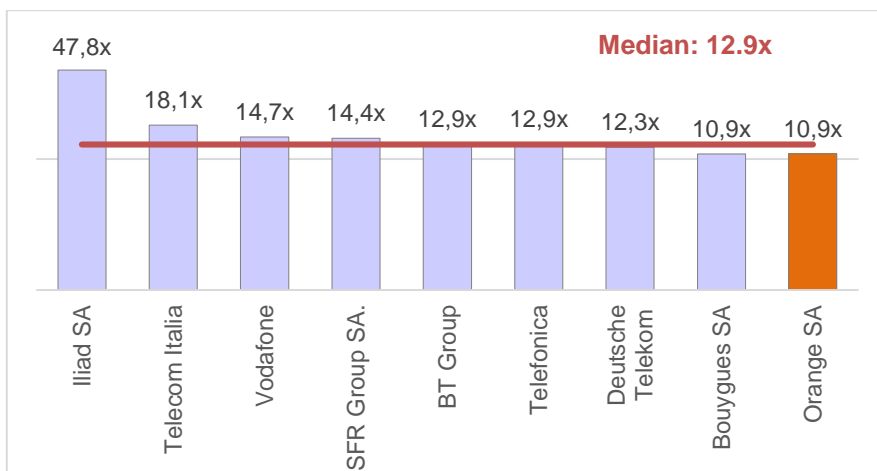


Fig. 6. EV / EBITDA - CAPEX 2018

Now lets move forward to the DCF valuation.

The FCFF projections are presented in table 1. Revenue projection was based on the ARPU growth along with the customer-base growth. All the other metrics were based on historical average margins, and BASE analysis. Mid-year discount approach is used, at WACC of 6.6%.

Table 1: DCF Outputs

in mlns of EUR	2016-A	2017-F	2018-F	2019-F	2020-F	2021-F
Revenue	40 918	41 536	42 506	43 610	44 857	46 259
<i>Growth rate, %</i>		1.5%	2.3%	2.6%	2.9%	3.1%
EBITDA	11 420	12 066	12 560	13 105	13 704	14 363
<i>EBITDA margin, %</i>		29.0%	29.5%	30.0%	30.5%	31.0%
EBIT	4 692	4 869	5 039	5 028	4 898	4 694
NOPAT	3 078	3 193	3 304	3 297	3 212	3 078
Capex	(6 956)	(6 626)	(6 823)	(7 045)	(7 292)	(7 569)
D&A	6 728	7 197	7 522	8 077	8 805	9 670
Change in WC	(160)	60	11	13	15	16
Unlevered FCF		3 823	4 014	4 342	4 739	5 195
<i>Mid-year discount</i>		0.625	1.625	2.625	3.625	4.625
Present value of FCF		3 674	3 619	3 673	3 762	3 869

WACC calculation was carried out via unlevering public comparables' betas, and adjusting them to Orange's capital structure. Calculations can be seen in Table 2.

Table 2: WACC Outputs

Metric	Value
Risk-free rate	2.82%
Orange Group beta	0.77
Equity risk premium	9.10%
Cost of equity	9.82%
Post-tax cost of debt	3.11%
D / (D+E) ratio	0.4x
WACC	7.14%

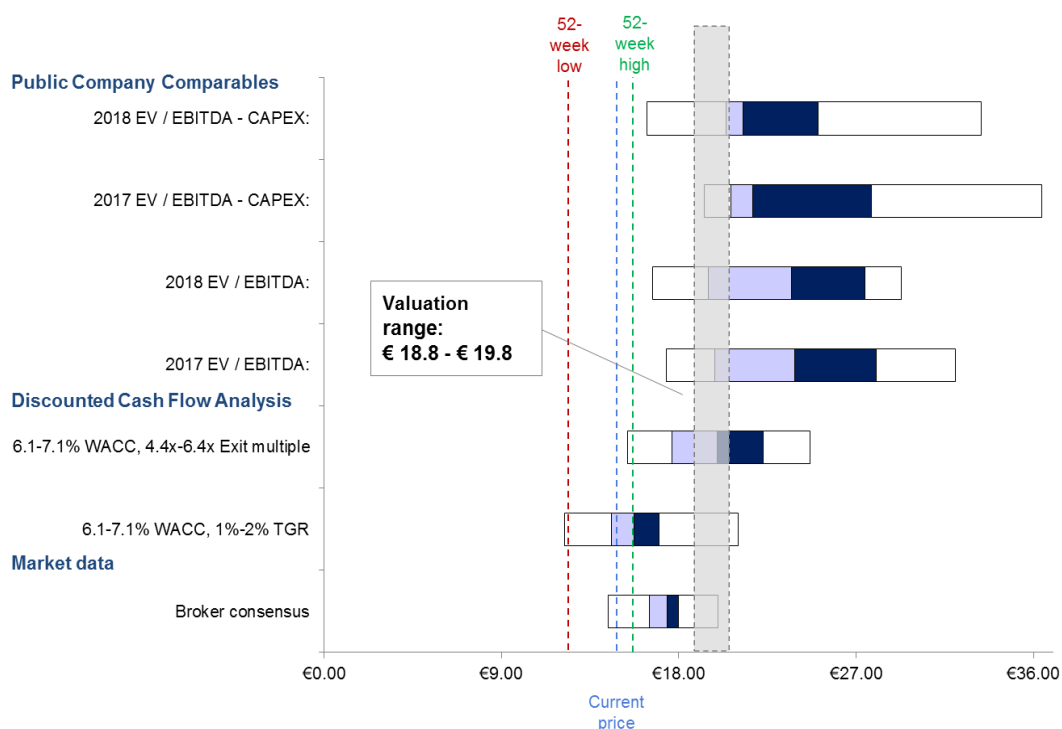
The share price of Orange SA was derived from the Enterprise Value, calculated as a sum of discounted future FCF estimates and terminal value.

Terminal value was found in two ways: using growing perpetuity model (with TGR = 1.5%) and exit EBITDA multiple (of 5.4x).

Table 3: Share price calculation

	TGR model	Exit multiple
Enterprise value	66 029	77 227
Net Debt as of 31-Dec-2016	24 000	
Equity value	42 029	53 227
Diluted shares outstanding, mln	2 671	
Share price	€ 15.73	€ 19.93

Pulling all analysis together we arrive at the following football-field chart.



The current price for Orange SA (ORAN.PA) share is € 14.66. Our analysis suggests that the fair value of this security lies in the range from 17.9 to € 18.9:

By trading multiple approach share price is in the range from 16.4 to € 21.3

Discounted cash flow analysis provides us with following estimations: Gordon growth from 14.6 to € 18.1, Exit multiples from 17.6 to € 19.9

Estimated values are in line with current market review of the company's share.

We expect the price of Orange SA share to rise and fluctuate within this interval. Therefore our recommendation is to Buy.

Orange shows a stable performance and, despite the fact that there are signs of a price war among telecoms in France, is going to increase margins even further, exploiting its cost savings

programme (Explore2020) in order to push its EBITDA higher. The company will soon launch Orange Bank, which is expected to lead to a new source of revenue.

To us we would like to say, that the conducted research showed that the valuation of the company can be done by different methods, but it is better to use them in bulk, rather than separately. Correct valuation makes the main goal of increasing of the market value of the company measurable, and thereby achievable. It is extremely important for a manager to be able to feel his company, to foresee in advance the influence of various factors on the formation of its market capitalization, and also rationally manage it with the aim of increasing the value.

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