ORANGE PL

Reuters: OPL.WA Bloomberg: OPL PW

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Inflation, a Thousand Cuts Torture

Recommendation Underperform, TP cut to PLN5.9

We believe inflation, seen at some 26% in 2022-24E, represents the key fundamental downside risk to Polish telecoms. With ARPO y/y growth dying out at low-single pp y/y, we see multi-angled inflationary opex pressures to pose high risk to company's operating leverage, hypothetical telecom's nightmare and FCF drag. Moreover, Polish spectrum renewal payments are inflation-linked, which substantially increases all short- and long-term renewal fees. Moreover, we believe that current inflation also makes the original PLN0.5bn payment for 5G auction unrealistic. Last but not least, OPL's 3.9% DY compares poorly to the Polish 10YR interest rate at +6% presently, and increased WACCs trim both DCF and DDM valuations. Most importantly, not only Orange France officially delayed OPL's infra carve-out (potential share price driver), but also Parkiet daily speculates on Iliad's convergent offer taking real shape relatively soon, the latter potentially stalling the Polish telco market for years. The recent stock de-rating and Orange Pl's false (in our view) defensiveness may support the stock at the declining market, but increased WACCs trim our blended TP down to PLN5.9.

Inflation, a Thousand Cuts torture? High multi-year inflation represents multi-angled downside risk to telecoms, we believe. Primarily, it naturally poses high downside risk to both opex and capex, with current energy prices' trigger and assumed following food prices' trigger likely driving all opex lines. Also, +10% annual inflation makes early estimates of 5G spectrum price at PLN0.5bn unrealistic, we believe. Moreover, investors should keep in mind telecoms' renewal fees are inflation-linked, which should pose a drag to FCF at higher-than-expected 4G renewal fees (payable both in 2022 and in dozen years). Finally, very high 10-year RFR boosts WACC and Cost of Equity, both detrimental to DCF and DDM valuations, also making the company's DY unappealing.

TOTEM and Iliad update. In our previous research we were advocating Orange Pl missed it's infra deal window. In its 1Q2022 presentation, Orange France (OPL's parent company) guides for Totem-driven carve-outs to be initiated in Romania, Slovakia and Moldova, and Polish assets' carve-out might be executed later onward. Additionally, Iliad pledges to keep price of its core French mobile plan (EUR19.99/month for 210GB of 5G/4G+ data and unlimited SMS/MMS) stable for the next five years, posing downside risk to Polish telecoms' ARPUs if the same approach is applied. Stagflation would increase Orange Pl's impairments.

Risks to recommendation. Iliad's potential new aggressive convergent offer represents the key risk factor to the Polish incumbent, in our view. In contrary, lack of such offer would offer upside. Inflation-indexed ARPU expansion and low price paid for 5G spectrum would provide upsides to results and FCF. The disposal of FTTH / mobile infrastructure, or sale of access to OPL network could offer upsides to OPL valuation.

Forecasts, valuation, recommendation. We keep our forecasts barely changed, adjusting model for impact of high inflation at ARPO growth, spectrum renewal costs, and higher RFR (6.0% in 2022-24E and 4.0% afterwards, vs 3.0% previously). The company guides for its electricity cost growth easing in 2-4Q2022 vs 1Q2022's PLN67mn, but we assume OPL protects its 2022 guidance at the expense of higher electricity cost paid in 2023E. Our DCF and DDM valuations fall 6-11% to PLN5.3-5.4 (assuming no Iliad's campaigning), and with comparable valuation sliding 5%, our blended TP falls 8% to PLN5.9. High inflation de-rates Orange Pl in our view, thus we maintain the stock as Underperform.

Orange Polska: Financial summary (year to December)

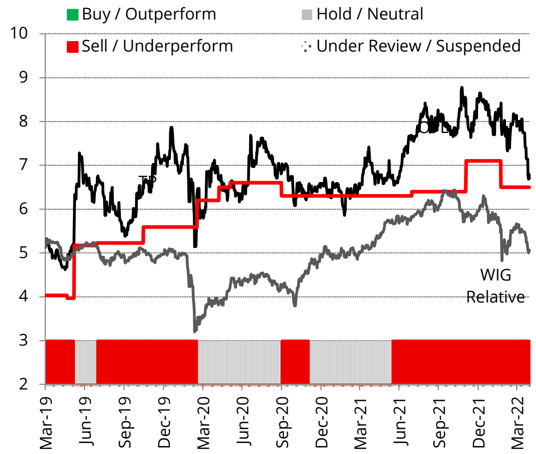
PLNmn	2019	2020	2021	2022E	2023E	2024E
Sales	11,407	11,508	11,928	11,914	12,060	12,313
EBITDAaL	2,735	2,797	2,963	2,970	2,967	3,082
EBIT	414	404	2,211	1,030	1,083	1,358
Net profit	89	46	1,672	628	662	830
P/E (x)	86.3	192.3	5.7	13.4	12.7	10.1
EV/EBITDA (x)	5.0	5.2	4.6	4.5	4.4	4.2
DY	0.0%	0.0%	0.0%	3.9%	3.9%	7.8%

Source: Company data, Santander Brokerage Poland estimates

Recommendation	**Underperform**
Target Price [Dec 2022]	**5.9**
Price (PLN, 05 May 2022)	6.40
Market cap. (PLNmn)	8,399
Free float (%)	49.3
Number of shares (mn)	1,312

What Has Changed

- TP cut 4% to PLN5.9 from PLN6.5, recommendation Underperform
- 1Q22 in line with expectations, FY2022 guidance maintained in full
- Inflation should drive 1) opex, 2) capex, 3) mobile spectrum renewal fees, 4) likely 5G spectrum payment and 5) RFR and WACC, all coming in negative to company's valuation…
- …and OPL's DY (3.8%) substantially below Polish 10YR interest rate negates telecom's defensiveness, we believe
- Carve-out of Polish infra assets got officially delayed by Orange France, the latter focusing on three other geographies (OPL's s-t upside seems gone)…
- …and Iliad's convergent offer might potentially stall Polish telco market growth for years
- ARPO growth catching up with inflation, Iliad's inactivity, new buyers of OPL infra access and low 5G price represent the key upside risk to OPL's forecasts and valuation



The chart measures performance against the WIG index

Main shareholders	**% of votes**
Orange France	50.7

Source: stooq.pl

Company description

Polish telco incumbent with the dominant position in fixed-line services, and one of four key mobile operators. In recent years Orange Pl has been heavily investing in the fiber network.

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Valuation

In our valuation process we use DCF, DDM and comparable valuation methodologies. DCF remains our preferred valuation tool, as it relies more on the company's long-term outlook. As changes in financial results or changes in investors' preferences drive the comparable valuation, and management's decisions may alter DDM valuation outcomes, we see these as supportive to the DCF. Hence, we use DCF as the primary valuation tool (50% weight), with DDM and comparable valuation having 25% weight each.

In the attempt to catch up with potentially multi-year market changes triggered by the Russian assault on Ukraine, in our model we increased 10-year average risk-free rates. We apply 6.0% for years 2022-2024E and flat 4.0% thereafter, versus stable 3.0% rate applied previously. These changes resulted in our WACC increase to 10.5% in 2022-24E and 8.6% beyond from 7.7% previously, and Cost of Equity respectively at 13.7% and 11.7%, vs 10.7% previously.

DCF valuation

Fig. 1. Orange Pl: WACC calculation

	Years 2022-24E	Years 2025E onwards
Risk-free rate	6.0%	4.0%
Unlevered beta	1.0	1.0
Levered beta	1.5	1.5
Equity risk premium	5.0%	5.0%
Cost of equity	**13.7%**	**11.7%**
Risk-free rate	6.0%	4.0%
Debt risk premium	1.0%	1.0%
Tax rate	19%	19%
After tax cost of debt	5.67%	4.05%
%D	40%	40%
%E	60%	60%
WACC	**10.49%**	**8.64%**

Source: Santander Brokerage Poland estimates

Fig. 2. Orange Pl: DCF valuation

PLNmn	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Sales	**11,914**	**12,060**	**12,313**	**12,525**	**12,607**	**12,826**	**12,893**	**13,093**	**13,331**	**13,586**
EBIT	1,030	1,083	1,358	1,509	1,466	1,516	1,405	1,426	1,487	1,569
Cash taxes on EBIT	-196	-206	-258	-287	-279	-288	-267	-271	-282	-298
NOPAT	**834**	**877**	**1,100**	**1,222**	**1,188**	**1,228**	**1,138**	**1,155**	**1,204**	**1,271**
Depreciation	2,020	1,936	1,776	1,716	1,716	1,716	1,716	1,716	1,716	1,716
Change in operating WC	-19	49	44	38	30	21	11	-1	-14	-27
Capital expenditure *	**-3,201**	**-1,787**	**-1,825**	**-1,856**	**-1,869**	**-2,312**	**-2,322**	**-2,550**	**-5,447**	**-2,038**
Free cash flow	**-366**	**1,076**	**1,096**	**1,119**	**1,065**	**652**	**542**	**320**	**-2,540**	**922**
WACC	10.49%	10.49%	10.49%	8.64%	8.64%	8.64%	8.64%	8.64%	8.64%	8.64%
PV FCF 2022-2031E	2,854									
Terminal growth	2.0%									
Terminal Value (TV)	19,101									
PV TV	7,926									
Total EV	10,781									
Net debt**	-3,739									
Cost of spectrum renewal ***	-1,012									
Equity value	6,029									
Number of shares (mn)	1,312									
Value per share (PLN, Jan 2022)	4.60									
Month	12									
12M target price (PLN)	**5.4**									

*Source: Santander Brokerage Poland estimates, * includes spectrum payments, ** includes future gains on T-Mobile agreement, *** includes discounted cost of mobile spectrums' renewals paid after 2031E at PLN1.26bn, and 15% likelihood of value creation on FTTH / mobile assets*

Fig. 3. Orange Pl: Comparable valuation

Company	P/E			EV/EBITDA			P/CE*		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Cyfrowy Polsat	11.8	11.3	9.9	6.0	5.8	5.7	4.0	4.0	4.0
Median – Poland	***11.8***	***11.3***	***9.9***	***6.0***	***5.8***	***5.7***	***4.0***	***4.0***	***4.0***
Western Europe									
Telefonica	13.0	11.8	11.2	5.9	5.8	5.7	2.5	2.5	2.5
France Telecom	9.7	8.9	8.2	5.4	5.2	4.8	2.8	2.8	2.7
Deutsche Telekom	13.3	11.6	10.1	6.7	6.1	5.8	3.0	3.0	2.8
Telecom Italia	n.a.	44.7	20.9	6.0	5.8	5.6	1.1	1.1	1.0
BT Group	9.3	8.9	9.2	4.9	4.7	4.6	2.9	2.9	2.8
KPN	20.6	18.5	16.9	8.0	7.8	7.6	6.5	6.5	6.3
Telenor	16.0	14.7	13.9	6.1	6.0	5.8	4.9	4.9	4.8
Hellenic Telecommunications	14.2	12.9	11.7	6.3	6.2	6.0	6.5	6.5	6.3
Telekom Austria	8.6	8.1	7.6	4.0	3.9	3.8	3.1	3.1	3.0
Median	***13.1***	***11.8***	***11.2***	***6.0***	***5.8***	***5.7***	***3.0***	***3.0***	***2.8***
EMEA region									
Magyar Telekom	7.7	6.9	6.3	3.7	3.7	3.6	2.0	2.0	2.0
Bezeq Telecommunication	13.4	12.3	11.5	6.0	5.8	5.7	4.9	4.9	4.7
DIGI Romania	17.5	11.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hrvatski Telekom	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Median	***13.4***	***11.7***	***8.9***	***4.8***	***4.7***	***4.7***	***3.4***	***3.4***	***3.4***
SET companies									
Elisa	24.2	23.1	22.1	14.1	13.6	13.2	14.6	14.6	14.2
Tele2	21.8	22.9	21.4	9.9	9.5	9.2	9.9	9.9	9.5
Telefonica Deutschland	323.9	42.5	26.4	5.1	5.0	4.9	3.2	3.2	3.1
Vodafone Group	14.5	12.9	11.7	6.5	6.4	6.3	3.4	3.4	3.4
Median	***23.0***	***23.0***	***21.8***	***8.2***	***8.0***	***7.7***	***6.7***	***6.7***	***6.4***
All-region median	***14.2***	***12.6***	***11.5***	***6.0***	***5.8***	***5.7***	***3.4***	***3.4***	***3.4***

Source: Bloomberg consensus estimates for comparable companies, share prices as of May 04, 2022
** Cash earnings equal to sum of net profit and depreciation*

Fig. 4. Orange Pl: Multiple-based valuation implications (PLN per share)

	P/E 2022-24E	EV/EBITDA 2022-24E	P/CE 2022-24E	Average 2022-24E
Comparative valuation	6.8	9.8	6.6	**7.7**

Source: Bloomberg, Santander Brokerage Poland estimates

DDM valuation

Fig. 5. Orange Pl: DDM valuation

PLNmn	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net profit	628	662	830	892	857	883	769	757	714	698
Pay-out	20%	52%	99%	79%	74%	77%	74%	43%	43%	46%
Dividend paid	328	328	656	656	656	656	656	328	328	328
Cost of Equity	11.7%									
Valuation target [PLN]	**5.3**									

Source: Santander Brokerage Poland estimates

Valuation summary

Fig. 6. Orange Pl: Valuation changes**

PLN per share	New	Previous	Change
DCF valuation	5.4	6.1	*-11%*
DDM valuation	5.3	5.6	*-6%*
Comparable valuation (based on 2022-2024E)	7.7	8.1	*-5%*
Blended valuation *	**5.9**	**6.5**	***-8%***

*Source: Santander Brokerage Poland estimates, * 50% DCF / 25% DDM / 25% comparable, ** rounded figures*

Changes to forecasts

Fig. 7. Orange Pl: Forecast changes

PLNmn	2022E			2023E			2024E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	11,914	11,898	*0%*	12,060	12,025	*0%*	12,313	12,260	*0%*
EBITDAaL	2,970	2,980	*0%*	2,967	2,982	*0%*	3,082	3,079	*0%*
EBIT	1,030	1,040	*-1%*	1,083	1,100	*-2%*	1,358	1,358	*0%*
Net profit	628	637	*-1%*	662	677	*-2%*	830	833	*0%*

Source: Santander Brokerage Poland estimates

Fig. 8. Orange Pl: Santander forecasts vs market consensus

PLNmn	2022E			2023E			2024E		
	SANe	Cons.	*Diff.*	SANe	Cons.	*Diff.*	SANe	Cons.	*Diff.*
Sales	11,914	11,865	*0%*	12,060	11,984	*1%*	12,313	12,060	*2%*
EBITDAaL	2,970	3,000	*-1%*	2,967	3,312	*-10%*	3,082	3,424	*-10%*
EBIT	1,030	894	*15%*	1,083	1,031	*5%*	1,358	1,190	*14%*
Net profit	628	570	*10%*	662	663	*0%*	830	806	*3%*

Source: Bloomberg, Santander Brokerage Poland estimates

Financials

Fig. 9. Orange Pl: Profit & Loss account, 2016-24E (PLNmn, under IFRS16 as of 2019)

PLNmn (year to December)	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Operating revenues	11,538	11,381	11,085	11,407	11,508	11,928	11,914	12,060	12,313
Non-operating revenues	0	0	0	0	0	0	0	0	0
Sales	**11,538**	**11,381**	**11,085**	**11,407**	**11,508**	**11,928**	**11,914**	**12,060**	**12,313**
Internal expenses capitalized in fixed assets	0	0	0	0	0	0	0	0	0
Costs of sales	-4,353	-4,323	-4,280	-4,341	-4,371	-4,349	-4,253	-4,328	-4,446
Operating expenses	-4,003	-4,038	-3,700	-3,841	-3,693	-4,021	-4,097	-4,122	-4,140
Other operating income/(expense)	-19	-213	30	133	-90	1,528	-22	-100	-100
EBITDAaL	**3,163**	**2,807**	**2,809**	**2,735**	**2,797**	**2,963**	**2,970**	**2,967**	**3,082**
Impairment of fixed assets	-1,792	-6	0	50	57	44	52	52	52
Depreciation and amortization	-2,725	-2,572	-2,464	-2,465	-2,511	-2,255	-2,020	-1,936	-1,776
Operating Income	**-1,354**	**229**	**345**	**414**	**404**	**2,211**	**1,030**	**1,083**	**1,358**
Net financial income (expense)	-359	-304	-305	-298	-342	-281	-263	-274	-338
	0	0	0	0	0	0	0	0	0
Income before taxes	**-1,713**	**-75**	**40**	**116**	**62**	**1,930**	**767**	**810**	**1,020**
Income taxes	-33	15	-30	-27	-16	-258	-139	-148	-190
Net profit	**-1,746**	**-60**	**10**	**89**	**46**	**1,672**	**628**	**662**	**830**
Gross profit margin	*62.3%*	*62.0%*	*61.4%*	*61.9%*	*62.0%*	*63.5%*	*64.3%*	*64.1%*	*63.9%*
EBITDA margin	*27.4%*	*24.7%*	*25.3%*	*24.0%*	*24.3%*	*24.8%*	*24.9%*	*24.6%*	*25.0%*
EBIT margin	*-11.7%*	*2.0%*	*3.1%*	*3.6%*	*3.5%*	*18.5%*	*8.6%*	*9.0%*	*11.0%*
Net profit margin	*-15.1%*	*-0.5%*	*0.1%*	*0.8%*	*0.4%*	*14.0%*	*5.3%*	*5.5%*	*6.7%*
Changes y/y									
Operating revenues	*-2.6%*	*-1.4%*	*-2.6%*	*2.9%*	*0.9%*	*3.6%*	*-0.1%*	*1.2%*	*2.1%*
Cost of sales & Operating expenses	*0.1%*	*0.1%*	*-4.6%*	*2.5%*	*-1.4%*	*3.8%*	*-0.2%*	*1.2%*	*1.6%*
EBITDA	*-7.8%*	*-11.3%*	*0.1%*	*-2.6%*	*2.3%*	*6.0%*	*0.2%*	*-0.1%*	*3.9%*
Operating Income	*n.m.*	*n.m.*	*50.7%*	*20.0%*	*-2.4%*	*447.4%*	*-53.4%*	*5.2%*	*25.4%*
Net profit	*n.m.*	*n.m.*	*n.m.*	*790.8%*	*-48.4%*	*3535.7%*	*-62.4%*	*5.4%*	*25.4%*

Source: Company data, Santander Brokerage Poland estimates

Fig. 10. Orange Pl: Per Share Ratios, Market Ratios, 2016-24E *

	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
EPS	-1.3	0.0	0.0	0.1	0.0	1.3	0.5	0.5	0.6
CEPS	0.7	1.9	1.9	1.9	1.9	3.0	2.0	2.0	2.0
BVPS	7.6	7.6	8.0	8.0	8.1	9.6	9.9	10.3	10.6
DPS	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.25**	**0.25**	**0.50**
FCF [PLNmn] **	-2,662	159	411	850	24	1,572	-657	708	673
FCF adj. For spectrums [PLNmn] **	506	159	495	850	24	1,572	854	708	673
FCF Yield	6.7%	2.3%	7.5%	11.1%	0.3%	16.5%	10.2%	8.4%	8.0%
Capex to Sales	45.3%	17.6%	20.3%	19.9%	18.2%	15.2%	26.9%	14.8%	14.8%
Capex to Sales adj. for spectrum	17.9%	17.6%	19.5%	19.9%	18.2%	15.2%	15.0%	15.0%	15.0%
Dividend Yield	4.3%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%	3.9%	7.8%
Net debt, excl. leasing [PLNmn]	6,934	6,438	6,922	6,109	5,655	4,060	5,045	4,665	4,649
Net debt/EBITDAaL	**2.2**	**2.3**	**2.5**	**2.2**	**2.0**	**1.4**	**1.7**	**1.6**	**1.5**
Net Debt to Total Capital	41%	39%	40%	33%	30%	21%	24%	22%	22%
P/E	Neg.	Neg.	656.2	86.3	192.3	5.7	13.4	12.7	10.1
P/CE	7.7	2.7	2.7	3.0	3.5	2.4	3.2	3.2	3.2
EV/EBITDA	4.6	4.7	4.8	5.1	5.2	4.6	4.5	4.4	4.2
EV/EBIT	Neg.	57.8	39.1	33.8	35.9	6.2	13.1	12.1	9.6

*Source: Company data, Santander Brokerage Poland estimates, * ratios for 2016-21 calculated on respective annual share price averages, ** FCF includes one-off income from FiberCo*

Fig. 11. Orange Pl: Balance Sheet, 2016-24E (PLNmn, under IFRS16 as of 2019)

PLNmn (year to December)	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Non-Current Assets	**20,187**	**19,660**	**19,326**	**20,847**	**20,937**	**22,020**	**23,430**	**23,578**	**23,923**
Intangible Assets	7,869	7,403	7,018	6,808	6,469	6,269	7,244	6,708	6,172
PPA	10,678	10,666	10,738	10,402	10,301	9,728	10,163	10,846	11,728
Long-term financial assets and lease assets	711	641	736	2,829	3,367	5,442	5,442	5,442	5,442
Deferred tax assets	929	950	834	808	800	581	581	581	581
Current Assets	**2,639**	**3,273**	**3,969**	**3,493**	**3,363**	**4,137**	**4,099**	**4,621**	**4,780**
Inventories	163	217	240	218	230	281	304	319	335
Trade and other receivables	2,033	2,266	2,806	2,578	2,305	2,345	2,537	2,664	2,791
Current tax receivable	181	144	312	293	470	578	578	578	578
Cash and cash equivalents	262	646	611	404	358	933	680	1,060	1,076
Total assets	**22,826**	**22,933**	**23,295**	**24,340**	**24,300**	**26,157**	**27,529**	**28,199**	**28,704**
Equity	**10,007**	**9,936**	**10,501**	**10,564**	**10,597**	**12,609**	**13,053**	**13,531**	**13,849**
Ordinary shares	3,937	3,937	3,937	3,937	3,937	3,937	3,937	3,937	3,937
Treasury shares	0	0	0	0	0	0	0	0	0
Share premium	832	832	832	832	832	832	832	832	832
Retained earnings, funds and reserves	5,238	5,167	5,732	5,795	5,828	7,840	8,284	8,762	9,080
Non-controlling interests	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Non-Current Liabilities	**8,431**	**6,952**	**6,846**	**9,682**	**6,064**	**9,193**	**9,925**	**9,925**	**9,925**
Long-term financial debts	7,153	5,553	5,381	8,072	4,624	7,268	8,000	8,000	8,000
Deferred tax liabilities	81	83	0	0	0	0	0	0	0
Non-current provisions for liabilities and charges	280	553	468	649	657	739	739	739	739
Non-current other liabilities	917	763	997	961	783	1,186	1,186	1,186	1,186
Current Liabilities	**4,386**	**6,043**	**5,946**	**4,092**	**7,637**	**4,353**	**4,548**	**4,741**	**4,927**
Short-term financial debt	41	1,529	2,150	420	4,091	573	573	573	573
Trade and Other payables	2,642	2,421	2,929	2,838	2,712	3,007	3,202	3,395	3,581
Income tax liability	509	478	0	0	0	0	0	0	0
Provisions for liabilities and charges	1,194	1,615	867	834	834	773	773	773	773
Total Equity and Liabilities	**22,826**	**22,933**	**23,295**	**24,340**	**24,300**	**26,157**	**27,529**	**28,199**	**28,704**

Source: Company data, Santander Brokerage Poland estimates

Fig. 12. Orange Pl: Cash Flow Statement, 2016-24E (PLNmn, under IFRS16 as of 2019)

PLNmn (year to December)	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Profit before tax	-1,713	-75	40	116	63	1,930	767	810	1,020
Non-cash adjustments for:	0	0	0	0	0	0	0	0	0
Depreciation	2,725	2,572	2,464	2,465	2,511	2,255	2,020	1,936	1,776
Other	1,624	-104	-38	321	144	-14	144	144	144
Operating cash flow before working capital changes	2,636	2,393	2,467	2,902	2,718	4,171	2,931	2,889	2,940
Working capital adjustments:	-55	-254	-55	-169	-403	-1,871	-19	49	44
Cash flows from operating activities	2,581	2,139	2,412	2,733	2,315	2,300	2,912	2,939	2,984
Income tax paid	-32	20	-30	-27	-16	-258	-139	-148	-190
Net cash flow from operating activities	2,549	2,159	2,382	2,706	2,299	2,042	2,773	2,791	2,794
Purchase of property, plant, equipment, intangibles	-5,211	-2,000	-2,220	-2,627	-2,397	-2,115	-3,498	-2,084	-2,122
Proceeds from sales of non-current assets	119	123	156	492	122	1,645	68	0	0
Net cash used in investing activities	-5,077	-1,574	-3,051	-3,874	-2,568	65	-3,430	-2,084	-2,122
Borrowings, net	2,524	10	449	961	223	-874	732	0	0
Acquisition of treasury shares	0	0	0	0	0	0	0	0	0
Other financials / spectrum fees	0	0	0	0	0	-1,345	0	0	0
Dividends paid	-328	0	0	0	0	0	-328	-328	-656
Net cash used in financing activities	2,196	10	449	961	223	-1,532	404	-328	-656
Net increase/(decrease) in cash and cash equivalents	-4	595	-220	-207	-46	575	-253	380	17
Cash and cash equivalents at beginning of year	341	504	439	388	321	822	1,046	1,090	1,125
Cash and cash equivalents at the year end	262	927	611	404	358	933	680	1,060	1,076

Source: Company data, Santander Brokerage Poland estimates

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The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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