



Orange SA (ORAN)

Updated October 29th, 2022 by Derek English

Key Metrics

Current Price:	\$9.50	5-Year CAGR Estimate:	15.7%	Market Cap:	\$33.1 B
Fair Value Price:	\$12.70	5-Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/01/22
% Fair Value:	75%	5-Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date:	12/07/22
Dividend Yield:	8.0%	5-Year Price Target	\$15.50	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Orange is one of the world's leading telecommunications operators headquartered in Paris, France. The company was incorporated in 1996 as France Telecom and changed its name to Orange SA in 2013. The group operates in 26 countries and employs over 147,000 people worldwide. The company provides a range of fixed and mobile telecommunications, data transmission, and other value-added services to consumers, businesses, and other telecommunications operators in Europe, Africa, and the Middle East. Orange SA is listed on Euronet Paris (symbol: ORA) and the NYSE (Symbol: ORAN) and is classified into five reportable business segments: France, Europe, Africa & Middle East, Enterprise, and International Carriers & Shared Services. The company trades with a \$33 billion market capitalization.

Orange released Q3 2022 results on October 25th, 2022, where the company posted a year-over-year revenue gain of just 1% compared to Q3 2021. Revenue was driven by sales in Africa & the Middle East, which grew by 4.2%. Europe is slowly improving thanks to Spain returning to growth. France is also showing signs of recovery as sales increased by 1.9%. However, the wholesale service still feels the pressure of declining legacy activities. Totem continues its good start under the company, where revenue grew 14.2%, and third-party customers now account for 18% of hosting service revenues versus 15% in 3Q 2021. EBITDA increased by 0.2%, while CAPEX increased by 5.2%; however, the company is on track to keep this below \$7.6 billion for the entire year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.40	\$0.94	\$0.41	\$0.99	\$1.05	\$0.67	\$0.73	\$1.14	\$1.95	\$0.47	\$1.27	\$1.55
DPS	\$1.76	\$0.67	\$0.97	\$0.67	\$0.66	\$0.74	\$0.81	\$0.78	\$0.69	\$0.93	\$0.74	\$0.94
Shares	2646	2638	2984	2701	2654	2712	2658	2688	2684	2658	2658	2658

Orange has delivered relatively poor results over the past ten years, highlighting the many headwinds of its legacy telecom business. Revenue has grown over the last ten years at 1.8% CAGR. However, net income and earnings are inconsistent due to capital expenditures and low-profit margins of around 7%, highlighting the competitiveness of the domestic market. We estimate EPS of around \$1.55 by 2027.

In terms of its dividend, Orange has a mixed history with some dividend cuts. For 2022, Orange will distribute a final dividend on December 7th, 2022. A dividend of ~\$0.31 per share will be proposed at the 2022 Shareholders' Meeting. In addition, a dividend of ~0.70 will be proposed at the 2022 shareholders' meeting for 2023. In local currency, the dividend remains flat, but due to currency fluctuations, the dividend has decreased in USD from 2021.

Orange expects a slight revenue increase, and telecom's organic free cash flow will reach slightly over 2.9 Billion after-tax refund allocation. As a result, the company has increased its forecasts for EBITDA growth by 3%. Longer-term, into 2023, Orange's objective is to grow organic cash flow to \$4 billion. However, the company has some headwinds, including a CAPEX/sales ratio of 17%, as the company still needs to invest in technology to remain competitive.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	33.0	11.8	36.5	16.7	15.3	24.4	23.0	13.6	6.2	26.4	7.5	10.0
Avg. Yld.	13.3%	6.1%	6.4%	4.1%	4.1%	4.5%	4.8%	5.0%	5.7%	7.5%	8.0%	6.1%

At 8%, Orange's attractive dividend yield far exceeds the 1.67%¹ offered by the S&P 500. However, a high dividend yield can pose some risks for investors. Orange has cut its dividend in the past and is only proposing to maintain it in local currency for 2023. The five-year average dividend growth rate is 4.7%, and we anticipate a 5% growth rate through 2027, which we estimate will result in a 6.1% dividend yield in USD. The current P/E ratio of 7.5 is based on an estimated EPS of \$1.27 for 2022. Multiple expansions could add 4.5% to annual returns over this period, providing the company meets our target PE ratio of 10.

Safety, Quality, Competitive Advantage, & Recession Resiliency

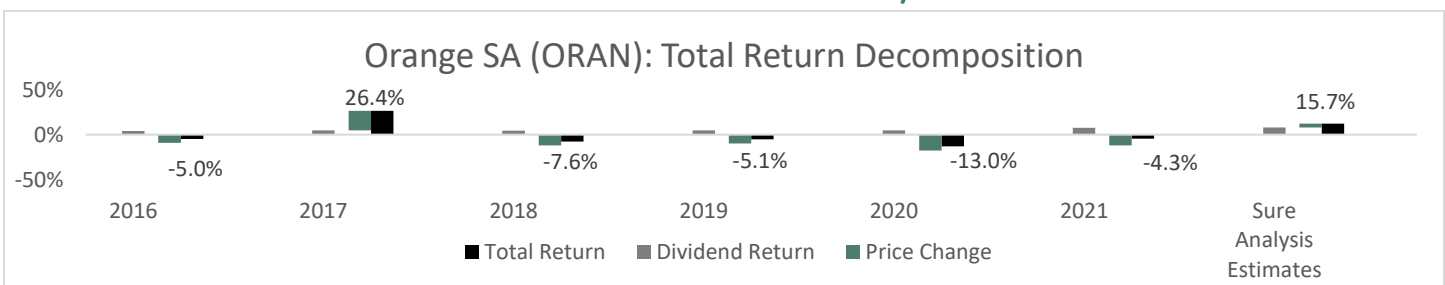
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	440%	71%	235%	68%	63%	111%	111%	68%	36%	198%	58%	61%

Orange has a leading market share in France and Spain, but competition has resulted in downward trends in top line and business margins which continued in 2022. However, the company is trying to become a multi-service operator by offering high-speed broadband with more generous data allowances. As a result, the company has reached 11.6 million fiber customers in France for the first time, while Orange bank has 1.7 million customers throughout Europe. In addition, 5G services are available in five countries as the company is forced to accelerate its network and infrastructure deployment, increasing the CAPEX burden. To combat these negative trends within its core business, the company is making acquisitions in its enterprise segment in line with its 'Engage2025' plan. For example, in 2019, Orange completed the acquisition of SecureLink, an industry leader in the cybersecurity segment. Furthermore, Orange is transforming into a "network native digital services company," with IT and integration services accounting for over 40% of the total revenue.

Final Thoughts & Recommendations

Orange SA is a mature company in a mature market that faces high levels of competition. The company has shown sound cash flow generation over the last five years, and leadership expects to grow cash flow to \$4 billion by 2023. Orange has a net debt to EBITDA ratio of just below 2x. Competitors can only increase by winning customers, forcing a price war, and lowering business margins. The company has recognized its headwinds and is trying to combat its declining legacy core business by expanding into new areas and growing its enterprise segment. We have estimated a return of 15.7% annually through 2027 based on a 4% earnings growth estimate, an 8.0% dividend yield, and a valuation tailwind potential. Shares continue to earn a buy rating.

Total Return Breakdown by Year



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¹ <https://www.mutpl.com/s-p-500-dividend-yield>

Disclosure: This analyst has a long position in the security mentioned.



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	55,944	54,426	52,455	44,650	45,054	46,273	48,863	47,285	48,273	50,310
Gross Profit	31,389	30,567	29,514	25,012	24,927	25,457	26,944	27,291	28,070	29,050
Gross Margin	56.1%	56.2%	56.3%	56.0%	55.3%	55.0%	55.1%	57.7%	58.1%	57.7%
SG&A Exp.	13,323	11,978	12,096	10,052	9,813	9,710	10,715	9,509	9,696	11,730
D&A Exp.	8,137	8,038	8,030	7,174	7,446	7,753	8,321	9,387	9,728	10,120
Operating Profit	7,772	8,509	7,403	5,830	5,875	6,150	5,832	6,611	6,489	5,206
Operating Margin	13.9%	15.6%	14.1%	13.1%	13.0%	13.3%	11.9%	14.0%	13.4%	10.3%
Net Profit	1,054	2,488	1,230	2,943	3,113	2,087	2,307	3,363	5,507	276
Net Margin	1.9%	4.6%	2.3%	6.6%	6.9%	4.5%	4.7%	7.1%	11.4%	0.5%
Free Cash Flow	4,182	1,517	3,579	1,949	286	2,998	2,201	1,979	4,741	
Income Tax	1,583	1,866	2,092	720	1,053	1,191	1,546	1,620	(968)	

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	119.0	118.5	107.5	99.96	100.9	114.4	110.4	119.6	132.5	122.4
Cash & Equivalents	11,005	8,169	8,218	4,886	6,718	6,970	6,445	7,260	10,018	9,761
Accounts Receivable	6,130	6,021	5,608	5,331	5,248	6,208	6,057	5,959	6,912	6,826
Inventories	775	880	862	834	866	992	1,104	1,015	1,001	1,078
Goodwill & Int. Ass.	49,714	50,722	44,500	45,260	43,958	49,488	47,182	47,474	52,559	44,310
Total Liabilities	84,106	82,160	68,952	63,590	65,085	74,186	72,458	81,021	86,952	82,320
Accounts Payable	7,487	7,758	7,023	6,808	6,569	7,830	7,705	7,485	7,964	7,629
Shareholder's Equity	32,145	33,623	35,944	33,791	33,027	37,161	35,082	35,537	42,304	40,020

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	2.1%	1.1%	2.8%	3.1%	1.9%	2.1%	2.9%	4.4%	0.2%
Return on Equity	3.1%	7.6%	3.5%	8.4%	9.3%	5.9%	6.4%	9.5%	14.1%	0.7%
ROIC	2.9%	7.0%	3.3%	7.9%	8.6%	5.5%	5.9%	8.8%	13.1%	0.3%
Shares Out.	2646	2638	2984	2701	2654	2712	2658	2688	2684	2658
Revenue/Share	21.14	20.68	19.89	16.53	16.98	17.06	18.38	17.59	17.99	18.93
FCF/Share	1.58	0.58	1.36	0.72	0.11	1.11	0.83	0.74	1.77	1.08

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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