

Orange Polska 2Q and 1H 2019 Results conference call

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[Transcript]

Company Participants

- Leszek Iwaszko, Director of Investor Relations
- Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board
- Mariusz Gaca, Vice-President in charge of Consumer Market
- Maciej Nowohonski, Management Board Member in charge of Finance

Other Participants

- Pawel Puchalski, Analyst (Santander)
- Malgorzata Zelazko, Analyst (PKO BP)
- Herve Drouet, Analyst (HSBC)
- Pawel Szpigiel, Analyst (mBank)

Presentation

Operator

Ladies and gentlemen, welcome to Orange Polska Second Quarter 2019 Results Conference Call. I'll now hand over to your host, Leszek Iwaszko, Head of Investor Relations. Sir, please go ahead.

Leszek Iwaszko, Director of Investor Relations

Good morning, everyone. Welcome to our results conference for the second quarter and first half of 2019. Our speakers for today are Jean-Francois Fallacher, the CEO of Orange Polska; next to him Maciej Nowohonski, our CFO; and Mariusz Gaca, Deputy CEO in charge of Consumer Market.

I hand the floor to Jean-Francois to begin the presentation. Thank you.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Thank you very much, Leszek. Good morning, ladies and gentlemen. Happy to see so many of you in the room despite the fact that we're in the middle of the summer. So thank you for coming. I will, as usual, start with the highlight of the quarters, then I will pass the floor to Mariusz Gaca, which will comment on our commercial results. Maciej Nowohonski will then comment on our financial result. And I will take back the microphone for the conclusion, and obviously, we will leave some time for Q&A after our presentation.

So let's start immediately with Page 6 of the presentation with a quick overview of where we stand half of the year against our full year guidance and expectations. Our ambition for this year, I remind, is to grow both revenues and EBITDAaL and with full confidence, first of all, I would like to confirm this guidance after the two first quarters of the year. The results so far are in line with our plans.

As you can see here, revenues are growing more than 2%. The strategic growth engine is convergence and it's growing enough to actually offset the decline in mono mobile and mono broadband. Now, about EBITDAaL, which is our new measure of operating performance. It was exactly flat after the first half. However, if we zoom in, it's been growing in the second quarter after a slight decline in the first quarter.

So let me remind, and I already commented that in April, that the first half of this year, we benefited -- I mean the first half of last year, we benefited from some non-recurrent gains which are not repeated this year and which naturally height -- weigh on the year-on-year comparison. This will not be the case in the second half, which makes us even more confident that our EBITDAaL will grow.

Now if we look at CapEx. CapEx were higher in the first half versus last year, but this is only because we decided this year that we want to be more evenly spread before the first half and the second half. Again, I'm very confident that for the full year, we will have actually our CapEx in line and slightly lower than last year.

Please let's go to the next slide, where I would like here to present the key business highlights for the first semester. I think this semester and the second quarter was a time full of particularly important events and developments for us, Orange Polska, and I believe as well for the market. Let me concentrate on the first bullet point of this presentation, the first topic, that is, I believe, especially important for the longer-term prospects for Orange Polska and for our industry.

For a long time, we have been very vocal, and you know that, that excessive price competition on the Polish telecom market has led to a lot of value destruction, and this has led to the situation in which prices of telecom services here in Poland are extremely low especially if we compare them to other European countries.

On the other hand, customers' needs and their purchasing powers are rapidly growing in Poland, so this is a positive side effect of the Poland good macroeconomic situation. There is inflation. Our business environment has become recently a bit more inflationary, and we see it mainly in labor and various external services and also the energy prices.

Finally, as you know, we invest a lot in our infrastructure network and there is another investment cycle in front of us with the 5G technology coming. So, for that reason, we were the first on the market to make these price changes in the second quarter. And please note that this is a more for more strategy, which means that we are asking customers to pay us a little bit more in return for additional tangible benefits desired by them such as higher data packages or a faster fixed broadband. I believe this is an important move for us and for the entire market this quarter.

As you can see, there are more on the slides that happened in the second quarter. Let me mention the fact that we have acquired the company BlueSoft. We finalized this acquisition in the mid of June and we're now starting to build a common go-to-the market strategy that will allow us to realize together synergies and develop the business further. We have also launched a new offer, Flex, that we will discuss -- and Mariusz Gaca will comment on it.

And the last three items mentioned on the slides, improvement in the direct margin; cost savings; working capital management. I will leave Maciej Nowohonski to comment them further. To conclude this slide, I believe that this development confirm that we are on the right track to meet our ambition which is a sustainable growth of our revenues and EBITDAaL.

So now I propose to move further, and I will leave the floor to Mariusz.

Mariusz Gaca, Vice-President in charge of Consumer Market

Thank you, Jean-Francois. Good morning, everyone. So I will deploy a little bit more details about some of the bullet points from the previous slide mentioned by Jean-Francois. So we'll go to Slide one -- number eight, when we summarize our portfolio for mobile, convergence and fixed with the changes that we actually introduced in the course of second quarter.

In mobile voice tariffs, we increased all four subscriptions by PLN5 while offering can return increased data packages to be used both domestically in Poland and in the European Union. In convergence, price of the standard package is now PLN10 higher in return for faster fibre broadband speed, and this has increased from 100 Meg to 300 Meg, and larger data packages on the SIM card that is always attached to the convergence offer. Prices of other packages were not change, in fact, despite increase of the data packages.

In fixed broadband, we modified offer structure and provided faster broadband speeds. Now, the same price applies to the entire 24 months contract, while previously, there were different prices for the first and for the second year of the contract. And the effective price for the customer is higher now by PLN5. These changes were made in May and June. So today it's pretty early to draw a meaningful conclusion how changes have been received by customers especially that we're in the middle of summer although we expect positive impact to gradually contribute to our results in quarters to come.

And just to avoid any doubts, the new pricing that we applied is exclusively for newly signed contract, which means that this is for customers in the acquisition process or in the retention process. And the terms of existing contracts for our customers in the base, these do not change. And as some of you have probably noticed, we launched new offer of prepaid earlier this week, this is also to test a little bit the market segment -- this particular market segment, which regards to more for more strategy.

Let's look at Slide number nine, and in May, we launched Orange Flex, which is -- in our view, a new highly innovative offer, we are very proud of it. We believe this is a benchmark for the future telecommunication services because this is digital, this is flexible, and this is very convenient for customers. And what are the differences to regular offers? So firstly, Flex is fully manageable from the application in the smartphone. If a smartphone is e-SIM embedded, that on-boarding takes just a few minutes with no paper formalities and no physical interactions with an operator. And there are no loyalty contracts, customer can change between different data plans depending on her or his needs even every month. He can even temporarily disable the service without any consequences.

And additional features or value-added services are purchased in real time fully digitally, of course. And last but not least, there is no need for any invoices as payment are -- payments are built to the payment card attached to the application by the user during the on-boarding process. What are the key benefits for us? So first of all, we are convinced that this is how the future is going to look like. We believe that telecom industry will sooner or later be disrupted as this was the case with some other industries like taxi, TV, or hotels, and we, Orange Polska want to be in the front of these changes.

By launching Flex, we are gaining exposure for young generation, which is particularly important for us because we know that in some of our services, this segment is underrepresented. From the financial point of view, it brings us tangible efficiencies. So this is obviously much lower acquisition and retention cost. Actually, there is no retention cost. Cost of customer care, no issues with the non-payers because there is a credit card attached. This is just to name a few of those features.

Now Flex is a brand-new category in the market, and we are fully conscious of that. This is not a prepaid, this is not post-paid which have been existing in the industry in this country for last 25 years. It's a long-term project that has to build its own customer perception. We are now focusing on collecting and listening to the feedback of our customers regarding the usage experience, and we are fine-tuning some processes in the customer journey. We are also working with various new functionalities and services that will be attached and available for our customers in the future.

Let's now go to the next slide, which is predominantly about fibre. The reach of our fibre network has approached 3.8 million Polish households. We added another 0.25 million in Q2 of which almost 40% were single-family houses. Our total foothold constitutes already more than 25% of all households in Poland and almost 50% in the largest Polish cities and some of them in fact, we exceeded 70%. Customer base increased less than last year in Q2 but a bit more than in the previous quarter. Gross customers additions continue to be higher year-on-year, which does not entirely translate into the net adds because, as the base grows there is a natural churn that is appearing, and we have to compensate the churn that is coming, although the churn level is very stable, and this is the lowest churn rate that we have amongst our broadband services.

Fiber adoption rate is about 11%, and it keeps on increasing every quarter. There are now 30 cities in which this is exceeding 15% in fact and 13 cities when this is even above 20% penetration. Please note that our broadband base is rapidly evolving. Growing technologies, so fiber, VDSL, and wireless for fixed, constitute now almost 60% of the total base; while a year ago, it was 50%.

Let's now look at Slide 11. Here, let's have a look at commercial performance in convergence and mobile. Penetration of convergence in the total fixed broadband customer base has reached 60%, which is a significant figure comparing - fully comparable to the level that is currently seen in other Western European countries. Customer base has exceeded 1.3 million.

Net additions are not as high as in the past because of several reasons. So firstly, we are not pushing wireless for fixed products as much as we used to do in the past, which is a result of our strategy. Secondly, in the past, we were actively migrating customers who had separately fixed and mobile contracts with us. On one hand, this pool has been drying out as we are selling the service for more than two years now and on the other hand, such migration is not always very much value accretive for us. Thirdly, after launch of Orange Love two years ago, again, we are seeing that there is a base coming for the retention, and not all of the customers are retained, so there is something that was not with us before which is churn that is appearing now, although, again, the churn is much lower than with mono

services. Nevertheless, it was not existing in the past.

And finally, with convergence now at 60% of the base, net additions naturally should not be expected to be as -- at a high level as in the past. Some part of the market will always stay for different reasons non-convergent. Q2 was a very good period for us in mobile with strong net additions both in prepaid and in the post-paid segments. In post-paid handset offers, good net additions were a consequence of a very low erosion of mono customer base. It was almost stable this quarter, mainly thanks to the improving churn rate. This is a consequence of our well-working churn prediction models. Mobile broadband customer base also eroded much less than in previous quarters as a result of lower churn as well.

Now in the lower part of the slide, we present some results of our ongoing transformation. Savings in indirect costs were even a bit better than in Q1, and you see the comparisons for a year ago, and a year ago these savings were exceptionally high. In the pink box, you can see that they entirely asset decline in the direct margin in H1. We are very pleased with improving trends in the direct margin. In Q2, it was almost flat year-on-year, and Maciej will comment on that in a moment.

So thank you very much. This is it about commercial performance, so we will now hand the floor to Maciej.

Maciej Nowohonski, Management Board Member in charge of Finance

Thanks, Mariusz. Good morning, everyone. We are starting the financial review with the summary slide. This is Slide number 13. So the top line trend remained solid, and the key growth drivers that were with us are with us. The profitability of EBITDAaL increased by almost 3% and was supported by much better trends in the direct margin, which I'm particularly pleased with. CapEx is reflecting more balanced level of investments through the year, and I will comment that still a bit more later on, and the cash was supported by sale of some instalment receivables, I will also expand that topic later on.

Now let's take a look at the revenue, this is the next page, Page 14. Our revenue in Q3 were up 2% year-on-year, and this is the fourth consecutive quarter of the growth. Revenue growth that we regard as core to our future growth and margin generation increased almost 2% year-on-year, a bit less than in Q1 mainly because Q1 growth of ICT revenues was exceptionally high. Growth of convergence revenues continues to offset decline in mono mobile and broadband, and combined growth rate of these three categories were 1.2%.

Mono mobile revenues declined only 5% after fall of 7% in the previous quarter, and the improvement in the trend resulted from better performance of the customer base that Mariusz just mentioned and also better performance of postpaid ARPO. We believe that this is sustainable improvement. Overall, revenue trend this quarter was supported by 15% growth of equipment revenue for two reasons. Firstly, launch of new offers both in mobile and convergence was accompanied by attractive smartphone offer that was well received by our customers. And secondly, we were still supported year-on-year by sale of smartphones anytime during lifetime of customer contract. As we have been flagging a quarter ago revenue increase from energy resale was lower this quarter and this level should now be sustainable.

Now let's turn to profitability topic. This is Page 15. EBITDAaL, so EBITDA after leases, our measure of operating performance under IFRS16 accounting in Q2, it was almost 3% higher than last year and offset small decline from the previous quarter. In April, commenting better expected performance of EBITDAaL I mentioned three improvement drivers. Direct margin; savings from the business transformation; and gains from the real estate transactions. Two out of these three contributed to EBITDAaL growth in Q2.

Firstly, direct margin was down only PLN8 million, so close to flat, much better than in Q1 when it was down around PLN40 million. Both margin on legacy and on growth services performed better. It is a result of our value strategy. We expect recent commercial actions to contribute to further improvement here going forward. Improvement in direct margin for us is very important in the context of our longer-term growth prospects.

Secondly, we concluded some real estate disposal transactions which generated PLN40 million higher year-on-year gain. Indirect cost savings continue to be on top of our agenda, and despite good savings generated this quarter, year-on-year evolution reflected outstanding result from Q2 of last year. We expect better trend year-on-year here in the second semester.

Now let's take a look at the bottom line, this is Page 16. Net income in Q2 amounted to PLN55 million, and similarly to Q1, bottom line was supported by lower depreciation and lower financial costs. Depreciation benefited from the extension of the useful life of certain fixed assets with the impact of around PLN50 million, we've been flagging to you that item many times and financial costs reflected better hedging balance and our successful debt management.

On the next slide, we review the CapEx. CapEx in the first semester was up 16% year-on-year, and the growth is entirely driven by more even spread of investment in 2019 versus last year. In 2018, almost 60% of the CapEx was spent in the second semester and this year, we're planning it to be closer to 50%. So we reconfirm that CapEx for the full year 2019 will be slightly below of the last year. You can see on this slide significant increase of IT and infrastructure CapEx. However, for the full year, it is expected to be below last year, which implies a significant decline in the second semester.

In terms of fibre, overall CapEx growth in H1 was driven mainly by POPC project which included connections of schools and households. What is also growing is CapEx on service delivery and customer equipment due to growing number of customers. So this is a good variable CapEx. CapEx directly related to network construction was broadly stable.

Now let's turn to cash generation on the next slide. We generated PLN83 million of cash flow in the second quarter, an improvement of almost PLN120 million versus last year, and the improvement resulted mainly from much better working capital. You know that for some time, we have been contemplating sale of instalment receivables. I am pleased to say that we finally concluded it at terms favourable to us versus our cost of debt. In Q2, we cash in from that around PLN130 million. We plan to continue this program to improve working capital management in the second semester of 2019, in 2020 and even longer if conditions allow. Cash CapEx was slightly higher year-on-year due to higher CapEx this quarter, as we just discussed, and cash flow was also supported by proceeds from sale of assets. However, some part of cash from transactions concluded in Q2 will be received later.

To conclude financial review, let's take a look at our leverage on Page 19. Our leverage ratio stood at 2.4x to EBITDA [ph] at the end of June. It did not change versus end of 2018 despite the fact that we have paid for the BlueSoft transaction. Our average cost of debt in Q2 was slightly lower than a year ago because of recent debt refinancing, and we expect it to go down even more, thanks to a better instrument mix in our debt.

Thank you for your attention, and I hand the floor back to Jean-Francois for the conclusion.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Thank you, Maciej. So allow me to summarize now. Q2, I believe, was very important for us and the entire telco market, firstly, because our market is changing. We have implemented a more for more strategy as we want customer's experience to be improved by the quality of service and infrastructure and customer care rather than just the prices. So we believe it opens a new chapter for the Polish telecom market.

Secondly, we see clearly a trend that the Polish market is becoming more and more convergent. All mobile operators now and the largest cable company now are selling convergence or announced such plans. We are, as you know, the pioneers in this. We showed the way. Others follow us which is, I believe, always a good sign that our household strategy adopted a few years ago was the right one. This also, obviously, means that we will have more competition, but I strongly believe that convergence still has a lot of growth potential in Poland and that Orange Polska offer a truly fibre-to-the-home network, by far the largest in the country, puts us in a very strong position to meet the needs of the Polish customers and households.

Now for the semester to come, what are we going to do? We are going to take care of the proper monetization of the recent commercial actions that you have seen and that Mariusz has been describing. You will not be surprised, convergence, fibre, ICT and further business transformation are obviously remaining our key priorities for the second semester. And as I was telling you as introduction, we reiterate our guidance of a revenue growth and EBITDAaL growth for this year.

That's all now, and we are ready for your questions.

Questions And Answers

Leszek Iwaszko, Director of Investor Relations

Thank you. We are, as usually, taking first questions from the floor. As usually, we are starting with Pawel Puchalski from Santander, so you don't have to introduce yourself. Pawel, the floor is yours.

Pawel Puchalski, Analyst

Pawel Puchalski speaking. A simple question. In your guidance, you guide for revenue, for EBITDAaL and CapEx, and the word dividend is no longer in your presentation. A couple of quarters ago, you have been guiding for 2018, '19, '20 horizon. So -- well, can you guide me is there any chance for a dividend payment in 2021?

Maciej Nowohonski, Management Board Member in charge of Finance

Pawel, I would like to remind you that we've been very consistent in discussion about a potential comeback to the dividend since the announcement of our strategic plan in September 2017. So I cannot confirm what you say about us telling that in 2019 -- we were telling that in 2019 will be -- we will be paying the dividend. So this is something that I cannot confirm that we've be telling, and this is a fact. We are very consistent in the message about the coming back of the dividend. So this is the sustainable growth of our profitability which, as you can see we start to experience. This is -- this was a clarity on the EC fine. That is clear right now. And this was the clarity on the 5G spectrum front which is today not with us yet.

Once those all three items are clear, with the growth of the profitability that we have, we will be much more, I would say, able to give you a very concrete path for the dividend because once we come back to the dividend, this is -- this should be a sustainable comeback, not a one-off.

Pawel Puchalski, Analyst

And could you remind me what was the last level of net debt to EBITDA suggested by the company when it was discussing dividends in the past?

Maciej Nowohonski, Management Board Member in charge of Finance

While announcing the guidance for this year, we've been saying that the peak of the net debt to EBITDA is basically this year-end, and that's it, and this is happening.

Pawel Puchalski, Analyst

Yes, yes -- I'm referring to dividends versus net debt-to-EBITDA level. What was the -- remember, there was, I think, 2.2 or something like this, I might be wrong here, the level of net debt-to-EBITDA which you were suggesting as the maximum thresholds when you will be or will be not paying dividends.

Maciej Nowohonski, Management Board Member in charge of Finance

We have not been too vocal about any thresholds on that front so far. Today, we are at 2.4, companies on the market that pay the dividend, pay these dividend even with a higher leverage than we have. Our view is that many companies on that industry are paying the dividend on the long-term front with the leverage of 2.0 to 2.2. So that's the rule of thumb for the market.

Leszek Iwaszko, Director of Investor Relations

Pawel, when we announced the strategy two years ago, we never commented on any level of net debt-to-EBITDA that would be important for the dividend. So you were referring to something that was before, which I don't think it's so relevant today.

Pawel Puchalski, Analyst

Okay. Another question, sale of receivables. Could you tell us how much can be, well, sold, what the amount of the sales would you expect for the total of 2019 and '20?

Maciej Nowohonski, Management Board Member in charge of Finance

So today, I will be more vocal about 2019 because this is something that is, I would say, a bit more predictable on the market. Conditions are very important for the transaction. If we have good conditions, as we have today, we can count on a bit more than PLN150 million in the second semester of this year.

Pawel Puchalski, Analyst

And the last question, I just want to be sure, does the sale of receivables have any impact on your P&L or not or it's neutral?

Maciej Nowohonski, Management Board Member in charge of Finance

Yes. There is a tiny impact on the EBITDAaL. When we sell, there are a few million zlotys impact down on the EBITDAaL, which is reflecting basically the level of the discount that is existing in such type of transactions.

Pawel Puchalski, Analyst

And it's recorded in EBITDAaL, EBITDA?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Yes, it's recorded there.

Pawel Puchalski, Analyst

Thank you very much.

Maciej Nowohonski, Management Board Member in charge of Finance

You are welcome.

Leszek Iwaszko, Director of Investor Relations

Any more questions from the floor, please?

Malgorzata Zelazko, Analyst

Hello. Malgorzata Zelazko from PKO BP. I have two questions. The first would be related to your new offer, especially on fixed broadband, because you have decided to increase the prices also for low-speed fixed broadband. So do you expect churn to accelerate? And the second question would be, what do you think about recently announced convergent offers of T-Mobile and UPC?

Mariusz Gaca, Vice-President in charge of Consumer Market

So I will take the question. In fact, we -- your first question was about -- so maybe the second one. We have never commented publicly offers of our competitors, and I will stick to this rule still here. Second, in terms of the broadband offer change, so you see that the low end is slightly more expensive. It's PLN5, the speed is three times more when it comes to fibre. So normally, in our projections, we have some assumptions about sensitivity on gross net, churn. And we basically need a bit of a time, it just happened a month ago, to see how our projections are actually realizing in reality. But we believe that as long -- as much fiber as we invest is there and the speed difference is again by a factor of three, it should be a pretty good deal still for the customer.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

If I may add, Mariusz, I mean, we are pleased that T-Mobile has been launching its offer, its convergent offer, because you will all remember that it is based on the deal we signed one year ago to open our fiber network to T-Mobile. So this will contribute in the middle term, hopefully as soon as possible, to the monetization of our fiber project.

Malgorzata Zelazko, Analyst

Thank you.

Leszek Iwaszko, Director of Investor Relations

I do not see any more questions from the floor. So let's switch to our teleconference listeners. Operator, please.

Operator

(Operator Instructions) And we have a question from Herve Drouet from HSBC. Please go ahead.

Herve Drouet, Analyst

Yes. Good morning, thank you for the presentation and the opportunity to ask question. Two questions on my side. So first one is on those new tariffs you've put on the market, which is mostly on data, mobile offers and also on the fixed broadband and convergence. Did you think there is room to extend it to other segments in the future? Do you think that could potentially be done? And also, you were saying it's mostly for the new customers that those offer has been proposed. When the contract comes to expiration for your existing users, are they proposed those new offer and will it be a slightly different tariff setting?

And the second question is about 5G. I was wondering if you can give us an update where we stand from a regulatory perspective in term of timing, in term of the process for 5G spectrum allocation and potential minimum reserve price.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Jean-Francois Fallacher, will answer your first question, which is the possibility to extend this price increase to other segments. So first of all, we, obviously, for reasons you understand, do not comment our future plans and moves about tariffs. However, you have to know that -- I mean, first of all, this is a price increase for the entire mobile offers, so not only for data as I thought you were stating. That's the first thing. You have to know that we already did such a move, actually, last year, November, for our B2B offers. By the way, that made us pretty confident that we could do the same move on the consumer market. This is why we executed this move actually in May this year. So that's the first answer.

You've heard and seen that we are also rightfully -- right now, testing the appetite of such more-for-more moves for the prepaid business. So that's what we want to reiterate. So what you can see is that almost our entire portfolio has been running this more-for-more changes. For the future, obviously, I cannot answer now, and we will see how the entire customers will react to that.

The second part of your question was about, actually, what we call retention. So are we offering these offers to our existing customers at the end of their contract? The answer is obviously yes. And I'm very pleased to see that -- I mean, again, as Mariusz was stating, it's quite a recent change. So let's not brag too much about what we see. But it's received very positively by our existing customers, which are also taking these new bundles which are offering more. So, so far, I would say so good, and obviously, yes, we are doing it.

The second question was about 5G in Poland. So what I can tell you is that 5G calendar is becoming more and more precise as we go. What we know that, and this has been announced by the Ministry of Digitalization and the regulator and that there is the famous C band, so the 3.4 gigahertz band to 3.7 gigahertz band, which should be put in an auction probably end of this year, beginning of next year. The wishes of the authorities here in Poland are to give

these frequencies to the operators mid of next year, so mid of 2020. There are now currently discussions about the size of the blocks.

So question is would we get blocks of the size of 50 megahertz, 80 megahertz or even 100 megahertz. Obviously, we operators are privileging in having the largest as possible blocks, but this discussion is ongoing with the regulator. So that is the timing now and the planning. So again, tender, end of this year, beginning of 2020, and frequencies available mid of next year.

Herve Drouet, Analyst

Thank you.

Operator

Our next question comes from Pawel Szpigiel from mBank. Please go ahead. Hello Mr. Pawel, your line is open.

Pawel Szpigiel, Analyst

Hi, thank you for the presentation. Three questions from me today. First, would be when do you expect to -- your direct margin to stabilize? The second is to what is the approximate value of sale of instalment receivables in the second half of 2019 and in 2020? And the third is, are you in any ongoing talks about commercial use of your fibre-to-the-home network with any Polish mobile operator?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Our direct margin has already stabilized in the second quarter as we were telling you. For the second half of 2019, Maciej Nowohonski just were -- was explaining that we are expecting to sell roughly PLN150 million of receivable. This, of course, if the conditions would stay as attractive as they are today, which there is a big chance we believe they will. And on the last part, obviously, I will not comment on that because this is a confidential matters. Today, what I can reiterate is that we have this deal with T-Mobile, and we are happy to see that they've launched their retail offers.

Pawel Szpigiel, Analyst

Okay, thank you.

Operator

(Operator Instructions) We have no further audio questions.

Leszek Iwaszko, Director of Investor Relations

Okay. Thank you. However, we have one question that was asked online. The question is about our rollout of our fibre network. It's, what is your overall targets for FTTH homes passed? When will the rollout program be largely completed?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

So in our plan, we were aiming to rollout 5 million households till the end of 2020, so end of next year. As you can see, we have rolled out 3.8 million households over a total number of household in Poland of 14 million. So the plan is still on, it's still the same plan. And in our strategic exercise, we were expecting to slow down this fiber rollout starting 2021, obviously, to make room to 5G investments because we believe this is the moment where we will need to invest in 5G. And we also keep in mind, Maciej was talking about it, after 2021, if, and that's what we are fighting for, the turnaround of the company is confirmed, potential return to dividend. So for that reason, the fiber rollout will really slow down at the end of 2020 when we will average 5 million households.

Leszek Iwaszko, Director of Investor Relations

Pawel has a follow-up, please.

Pawel Puchalski, Analyst

I'm looking at your third quarter and fourth quarter '18 figures, and we all know that these were heavily supported by a non-recurring real estate disposal. And -- well, these were much more than 10% of reported EBITDA, though supported heavily in net free cash flow and bottom line. Would you -- well, I expect more or less the same to come through in second half 2019. Don't you think it would be rational and reasonable to present at the end of the quarter the value of real estate disposal? Because then we would be able to make a, well, good estimates for you, because I don't know, PLN50 million miss at real estate disposal, which is not in non-recurring, could significantly alter your results and market consensus.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Yes. Thank you, Pawel. You know that, indeed, this is non or I would say not non-recurring. This is a non-operational results. Obviously, this is recurring because we still have a lot in our balance sheet of assets, real estate assets. We are wanting to sell. By the way, I take the opportunity to rebound on your question because we are doing this not only to generate cash. This is -- has a triple-positive effect on the company, selling these real estates. First of all, obviously, it's generating cash that we want to put in our fiber or future 5G network, so assets that are really generating, and core business assets.

Second is that we're saving a lot by doing that because getting rid of some of these real estates in city centers where we pay a lot of taxes, where we pay a lot of maintenance costs because these usually are old, sometimes, historical building in the city centers of Poland, is really helping us on the cost transformation. And third, but not least, I mean, we are usually relocating our employees in much better-suited offices. So it's much better, I would say, for the work environment of Orange Polska employees.

So this is recurring because we still have a big pool of assets to sell, and this is not going to dry out before a few years, but your point is clear. And at some point in time, we'll get to there because this is not an infinite pool of real estate that we have to sell. So -- but we still have in front of us a few years. So do not, I would say, have any stress about us, for instance, in the coming quarters to be saying it's over, we stop. This -- we still have a lot to do.

Pawel Puchalski, Analyst

Yeah, but my question -- I'm not questioning your selling real estate. I'm not saying it's wrong. It's absolutely right. It's supportive. My question was very different. Why you do not share, after the quarter, the value of real estate disposal? Because it is one of the key drivers of Orange Polska EBITDAaL, well, for the past six quarters and as you said for the coming next quarters.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Okay. This is not a key driver. This is a cherry on the cake, to be clear. That's it, and we have decided not to separate these two topics, but I mean, just be reassured, we will come to that in the future.

Pawel Puchalski, Analyst

And if you could -- well, third quarter of 2019 -

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

I will not make any commitments on when we're going to do this. It's not going to be in the near future, because as I was telling you, we have still a few years to go selling real estate, and basically, it's not in the coming quarter or in coming quarters we are going to do that. But at some point, we will come to that.

Pawel Puchalski, Analyst

And to follow-up, if I might. You said, years of selling real estate. Shall I expect the amount of -- the scale of real estate disposals from 2018 in 2019, '20 and '21, or the scale will be definitely diminishing?

Maciej Nowohonski, Management Board Member in charge of Finance

Pawel, in 2018, we have proven ability to accelerate a lot on that front, and we had done a lot to properly address the balance sheet issue that we have with those real estates. We would like to continue with that, but I cannot guarantee a full success because this is dependent on the negotiation. So we will be coming back to you once the projects are successful. By the way, the real estate is not the one and only item in which forecasts of the different analysts differ from the results. So I don't see a big point here, really.

Leszek Iwaszko, Director of Investor Relations

Let's -- there are two more questions have been asked online. First question is what would be additional CapEx for fulfilment network in case receiving C band?

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

I mean, unfortunately, we will not only receive C band but we will, I guess, need to pay for the C band. So that's one of the big question mark we still are having, which will be as much we're seeing clarified in the coming quarters, definitely clarified next year, first half. The network investments for -- I believe, using these 5G network are not yet completely clear to us simply because we need to know what would be the bandwidth that we will buy. So are we going to be able to buy 50 megahertz, 80 megahertz, 100 megahertz. So -- but they are already planning our strategic plan, as I was saying. They will be -- let's say, starting next year, to get prepared to receive these frequencies, and they will be ramping up, we understood it well, starting seriously in 2021, 2022 and further with the decline and the decrease of our fiber investments. I mean, we will create room for these 5G investments.

So the plan is not totally detailed yet but it's there. It's anticipated, and it's already contained in our CapEx forecast that we are sharing with you during our roadshows.

Leszek Iwaszko, Director of Investor Relations

And another question from Anna Kazaryan from VTB Capital. What effect on prepaid ARPU do you expect from upsell on new tariffs, if any?

Mariusz Gaca, Vice-President in charge of Consumer Market

Well, at this stage, we are just testing the market. We do not expect some material changes to be seen in our P&L the next quarter. This is not a short-term gain. This is rather a long-term gain, and this is not something that we expect to bring something tangible quickly.

Leszek Iwaszko, Director of Investor Relations

If we have no more follow-ups, thank you very much for your attention, for the conference and see you back in October for the third quarter results. Thank you.

Jean-Francois Fallacher, Chief Executive Officer and President of the Management Board

Thank you very much.