

Friday, September 07, 2018 | special comment

Agora – Publisher Cuts Ties With Key Newsagent Over Money

Rating: buy | target price: PLN 18.40 PLN | current price: PLN 9.50

AGO PW; AGO.WA | Media, Poland

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Agora decided to pull its papers, most notably the flagship daily *Wyborcza*, from all newsstands run by Poland's largest newsagent chain, Ruch, over what it says are "millions" in overdue invoices. The Company declares it has made arrangements with other newspaper distributors to stock more copies of *Wyborcza* to minimize inconvenience for the readers. Nevertheless we are of the opinion that, without Ruch's dense countrywide network, Agora faces annual losses on newspaper publishing to the tune of several million zlotys, and we expect the Company to start making adjustments soon to catch up with the new reality. Our long-term view for Agora remains bullish.

- Agora says the decision to cut ties with Ruch came after months of missed payments that are not likely to ever be recovered.
- The Company will still supply enough copies to Ruch newsstands to make sure paid subscribers can pick up

their daily papers at their usual places, but it is changing the payment formula from long-term plans to a prepaid or weekly basis.

- Agora set aside an allowance for the overdue Ruch payments in Q2 in an amount which probably covers the full default.
- Agora says it has taken measures to redirect *Wyborcza* copies to other distribution channels, including post offices, supermarkets, and gas stations.
- The Company continues to work on bringing down print costs and circulation.

Despite efforts to minimize the impact, in our view the withdrawal from Ruch can be expected to produce a setback for Agora to the tune of several million zlotys per year, with noticeable aftereffects coming in Q4 2018. Depending on how the new situation develops, we expect Agora to put in place initiatives several months down the line to further curb print costs. Our long-term view on Agora remains bullish, and we maintain the stock is undervalued at the current levels.

List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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