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Friday, January 10, 2014 | update

Cyfrowy Polsat: buy (resumed)

CPS PW; CPS.WA | Media, Poland

High Cash Flow, Growth Potential in Bundled Services

The November announcement that Cyfrowy Polsat was acquiring Polkomtel met with a negative reaction from investors who put a discount on the Company's value to reflect the resulting lack of dividends in 2014 and Polkomtel's high, PLN 10.2 billion debt. The price drop makes for a good buy opportunity in our view given CPS's post-merger growth potential provided by a large market for bundled services, cross-selling of products, savings in financing costs expected to be achieved in 2014, and the ability to generate above-average cash flow (with 2014E FCF yield at 20.5% vs. 11.7% for comparable telecoms). Cyfrowy expects to achieve total synergies of PLN 4.0 billion from the merger, however, we believe these synergies will come closer to PLN 2.6 billion, arising mostly from increased revenues. The Company has a 32% share in the Polish market for pay-TV services, and most of its customers live in small towns and rural areas where the lack of an extensive infrastructure keeps competition subdued. This gives Cyfrowy plenty of room to successfully market its triple play service (TV, phone, Internet) among prospective price-conscious customers looking for good mobile and broadband coverage. Further, Cyfrowy is poised to benefit from growing sales of television advertising which are expected to receive additional support from the planned introduction in Poland of a new type of license fee (the effects of which are not factored into our financial forecasts for CPS). We are resuming coverage of Cyfrowy Polsat with a buy rating and a price target of PLN 24.10. We want to point out that at today's price level Cyfrowy's market capitalization is PLN 12.0 billion, giving it a 12th ranking on the WSE (CPS's weight in the WIG index is 1.5%). Moreover, a higher market cap should drive CPS's share in MSCI by several percentage points, ensuring greater interest from foreign investors. In this scenario, a 2014 EV/EBITDA multiple estimated at 6.0x (vs. 6.5x for peers) is an incentive to buy.

Potential to outpace targets

Free cash flow of PLN 2.3-2.6 billion projected for 2014-2016 should allow Cyfrowy Polsat to achieve the target ratio of net debt/ EBITDA below 2.5x in Q4 2015 in our view, earlier than the 2016 deadline, and to neutralize the impact of the Polkomtel takeover on earnings per share sooner than the 2017 plan, i.e. in H1 2016 (with EPS at 1.44). In 2013, Polkomtel refinanced 60% of its debt, thus reducing its quarterly financing costs by nearly PLN 100m to PLN 253m in Q3 (-28% y/y). After refinancing of Cyfrowy's EUR 350m Senior Notes, with synergies, in 2014, annual interest payments are expected to be reduced by over PLN 0.4bn.

Bundled services, Internet

Market penetration with bundled phone-Internet-TV services is 28% in Poland compared to 43% in the EU. Moreover, mobile internet traffic across the world is expected to increase ten-fold through 2019, driven mainly by smartphone video downloads. Both these trends can be a driving force behind Cyfrowy Polsat's earnings in the years ahead.

(PLN m)	2012*	2013F*	2013F	2014F*	2014F (pro forma)**	2015F**
Revenue	2 778.2	2 882.0	9 567.9	6 163.3	9 337.5	9 501.4
EBITDA	1 032.3	989.8	3 825.8	2 363.7	3 739.5	3 866.3
margin	37.2%	34.3%	40.0%	38.4%	40.0%	40.7%
EBIT	789.2	739.7	1 755.7	1 265.9	1 806.8	2 031.1
Net profit	598.3	476.7	190.6	658.2	729.6	800.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0
P/E	10.9	13.0	62.8	18.2	16.4	15.0
P/CE	7.8	9.0	5.3	6.8	4.5	4.5
P/BV	2.6	2.2	1.8	1.6	1.6	1.5
EV/EBITDA	8.3	8.3	6.2	9.4	6.0	5.4
DYield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

*based on pre-acquisition number of shares; **after acquisition of Metelem

Current Price	PLN 18.73
Target Price	PLN 24.10
Market Cap	PLN 6525m
Free Float	PLN 3162m
ADTV (3M)	PLN 21.60m

Shareholders

Pola Investments	44.27%
Sensor Overseas	7.27%
Others	48.46%

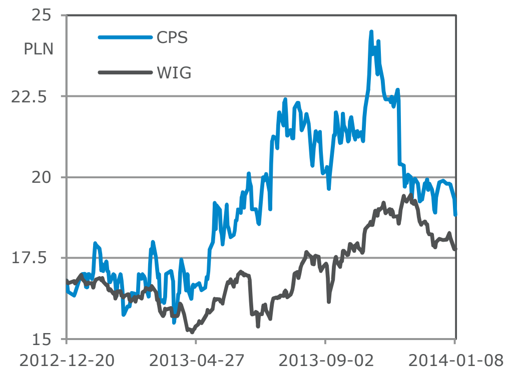
Sector Outlook

The value of the Polish telecommunications market is estimated at PLN 39 billion, including PLN 26bn for mobile telephony which has a penetration rate over 130%. In the past quarters, the mobile market has been shaped by intense competition between the four main operators, and by falling mobile termination rates. The market for pay-TV services is also nearing saturation with the number of DTH and CATV subscribers reaching 11.2 million (representing about 77% of Polish households). As for TV advertising, it is a late-cycle industry closely tied with GDP growth. We expect TV adspend to increase by 3.7% in 2014.

Company Profile

Cyfrowy Polsat is a leading Polish media group consisting of a satellite television platform which is the largest in Poland and the fourth largest in Europe (>3.5 million users), and the commercial TV broadcaster Telewizja Polsat which in Q3 2013 had an audience share of 21.6%. In November 2013, Cyfrowy began the process of taking over Polkomtel, a leading Polish mobile network covering 96% of the Polish territory.

CPS vs. WIG



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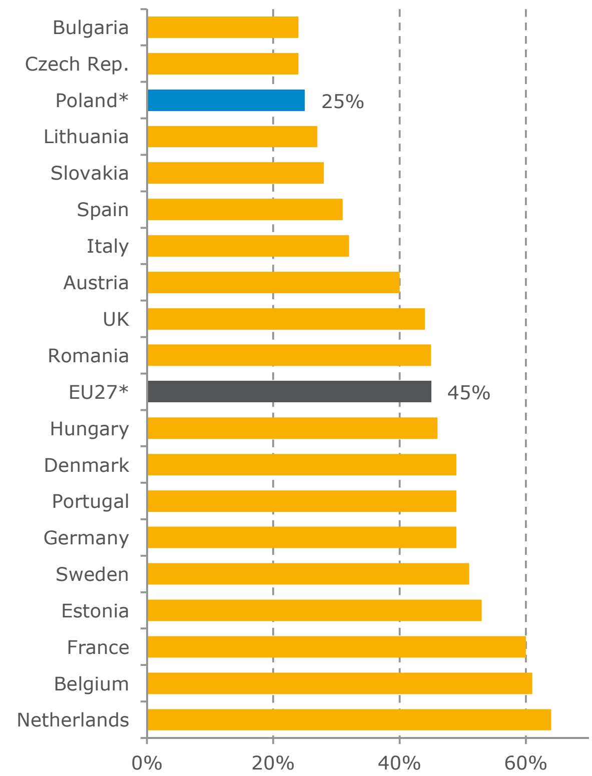
Bundled Services, Broadband Expansion

We believe Cyfrowy Polsat has substantial potential to grow its communications and pay TV segments thanks to a low penetration rate with triple play and a fast take up of broadband services. The Company controls 32% of the Polish pay-TV market, and its customers are largely based outside of metropolitan areas, which means it is perfectly positioned to successfully sell TV, voice, and mobile Internet service bundles.

Service bundles

Service bundling in Poland is offered primarily by cable TV operators and telecom operators using cable infrastructure. Due to a lacking infrastructure, these services reach mostly subscribers in large and medium-sized cities, creating a supply gap in less densely populated suburban, town, and rural areas. Meanwhile, European market research shows that demand for bundled services is on the rise across the EU. According to the June 2012 E-Communications Household Survey Report by the European Commission, the percentage of households buying packages (defined as more than one communications service from the same provider at a single price) is 28% in Poland compared to a EU average of 43%, and ratios as high as 64% in the Netherlands and 61% in Belgium.

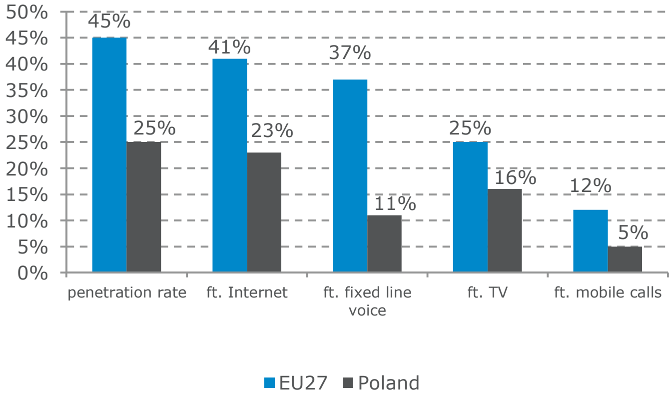
Use of service bundles in the EU in 2011



Source: Eurobarometer (e-Communications Household Survey), * 2012 data

The most popular service combination in the EU27 is Internet and fixed-line telephony. The lower-than-average market penetration rate in Poland can be attributed to a smaller share of citizens living in large and mid-sized cities.

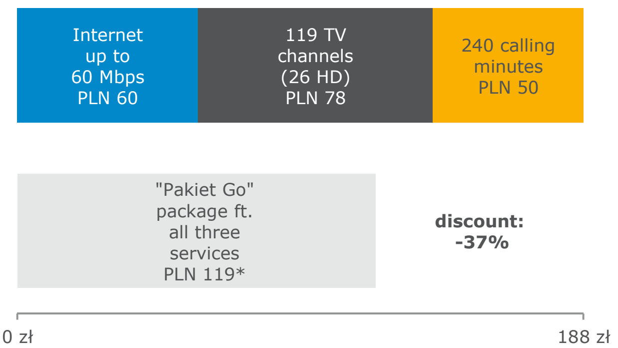
Use of service bundles in 2012 – Poland vs. EU27



Source: Eurobarometer (e-Communications Household Survey)

The take-up of bundled communications services in Poland is bound to increase in the years ahead. For the average user, there are no noticeable differences between the services offered by different mobile operators. The choice of mobile carrier is usually based on price and coverage. Because the marginal cost of providing mobile and satellite TV services is relatively low, media and telecom groups are able to offer their customers substantial discounts on the services bundled into one package.

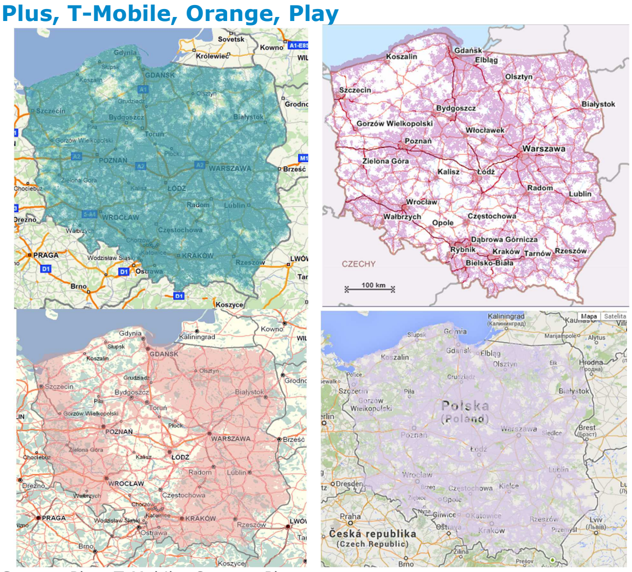
Triple-play service pricing using the example of UPC



Source: UPC, Dom Maklerski mBanku *24-month contract at PLN 89/month in the first six months followed by PLN 129/month in the remaining period

The widespread of mobile broadband access means growing reach for providers who have the capability to serve subscribers from rural areas. At the moment, the only Polish operator ready to provide triple play is Polkomtel, which also reaches the largest number of people with its mobile broadband network (98.2% of the population covered by HSPA, and 62.0% covered by LTE).

3G (UMTS/HSPA) network coverage comparison: Plus, T-Mobile, Orange, Play

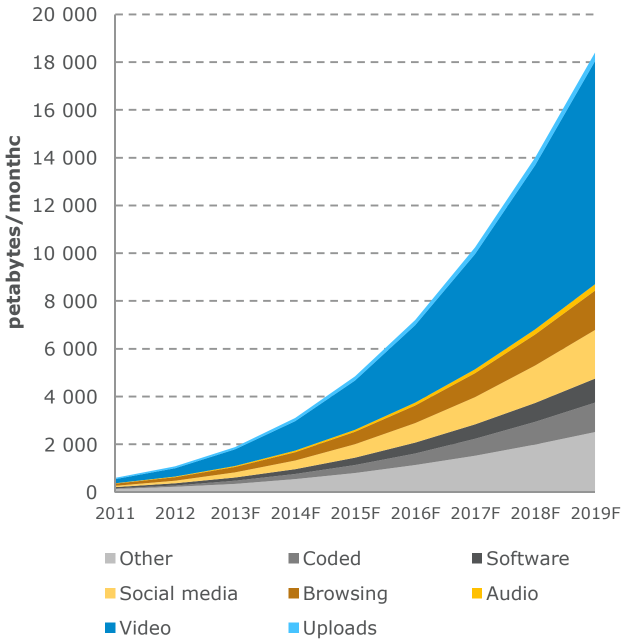


Source: Plus, T-Mobile, Orange, Play

Internet usage

The World Wide Web is gaining new users globally every day. According to projections by Ericsson, mobile Internet traffic will increase tenfold between 2013 and 2019, driven mainly by smartphone users whose share in the global traffic is expected to exceed 56% in six years. The bulk of this traffic will be video downloads.

2011-2019 mobile data traffic projections



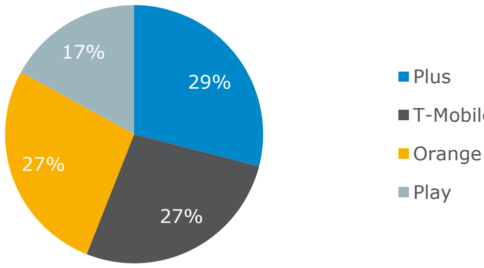
Source: Ericsson

Polkomtel Acquisition

About Polkomtel

Polkomtel is the leading mobile network operator in Poland with a 27% share in all contract users (as of 30 September 2013, not including MVNOs).

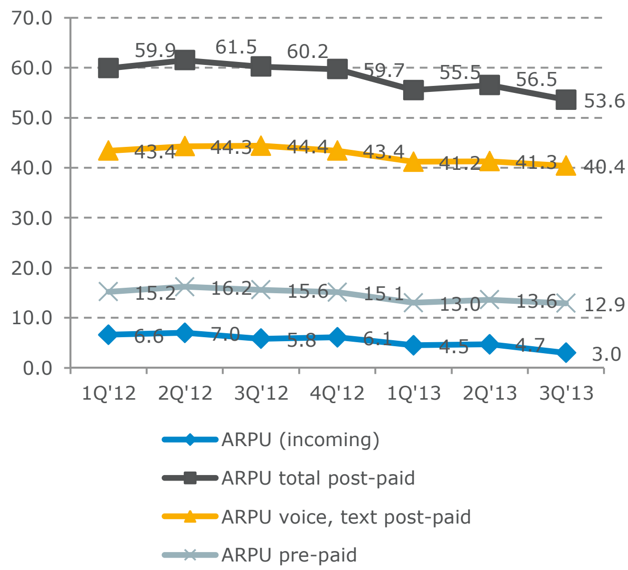
Leading mobile carriers: market share breakdown by contract subscribers



Source: Dom Maklerski mBanku

Polkomtel has a total of 14.1 mobile phone customers, 52% of whom (7.1 million) are post-paid users. In Q3 2013, the Operator generated revenue of PLN 1.65 billion (PLN 1.75bn reported topline adjusted for PLN 93m one-time gains), including 66.1% from retail contract customers and 13.6% from retail pre-paid users. Interconnect revenue accounted for 8.5% of the quarterly sales. Wholesale revenue showed a year-on-year surge of 48% in Q3, but other revenue lines in the period trended downwards, led by intense competition which depressed monthly ARPU, combined with the string of MTR cuts effected in the course of last year. Polkomtel retained its contract subscriber base in Q3 at the 7.4 million reported in the same quarter in 2012, thanks partly to an increase in the number of mobile Internet users from 589,000 to 703,000.

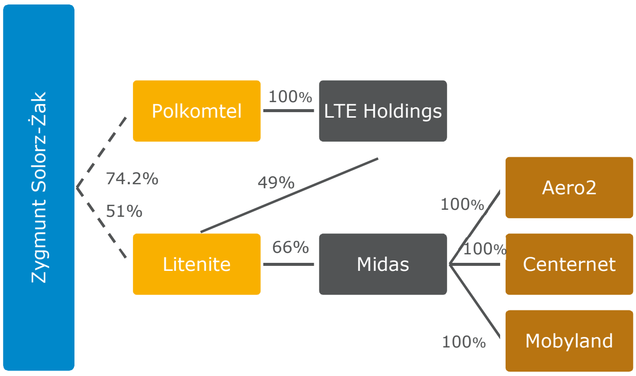
Selected ARPU data for Polkomtel



Source: Polkomtel

Polkomtel provides LTE connectivity jointly with its indirectly-controlled subsidiary Midas.

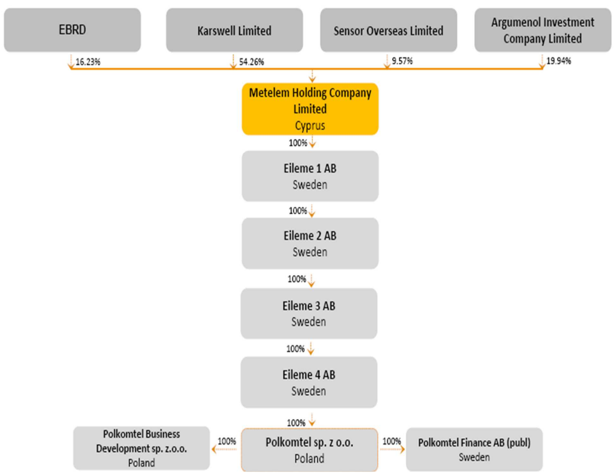
Ownership ties between Polkomtel and Midas



Source: Dom Maklerski mBanku

The controlling shareholder in both Polkomtel and Midas is Mr. Zygmunt Solorz-Żak who acquired the former in 2011 in a PLN 18.1 billion (EV) deal by making an equity contribution of PLN 4.8bn (with EUR 200m provided by EBRD). PLN 13.3 billion of the takeover funding came from a bank syndicate including Credit Agricole, Deutsche Bank, PKO BP, Royal Bank of Scotland, and Societe Generale, provided against a guarantee issued by Polkomtel itself. Mr. Solorz-Żak formed special-purpose vehicles named Eileme 1, 2, 3, and 4 through which he controls Polkomtel via Metelem Holding. Aside from Mr. Solorz-Żak, who holds a 74.2% stake through Karswell and Argumenol, the other owners of Metelem are Mr. Heronim Ruta (who also has interests in Cyfrowy Polsat) via Sensor Overseas (9.6%), and the European Bank for Reconstruction and Development (16.2% interest in non-voting capital).

Metelem Holding organizational chart



Source: Cyfrowy Polsat

After the 2011 takeover, Polkomtel underwent restructuring which trimmed its cost base (not including the effects of MTR cuts) by PLN 250m, mainly through downsizing and marketing cuts. With no more room for further cuts, the Operator's costs going forward are set to rise again, including through intensified marketing to combat fierce competition in mobile. Polkomtel and Midas between them control 35% of Poland's GSM spectrum, including 40% each of 900 MHz and 1800 MHz frequency bands, and because of this they are only allowed to bid for one 5 MHz block in the current 800 MHz frequency auction.

GSM frequency allocations in Poland

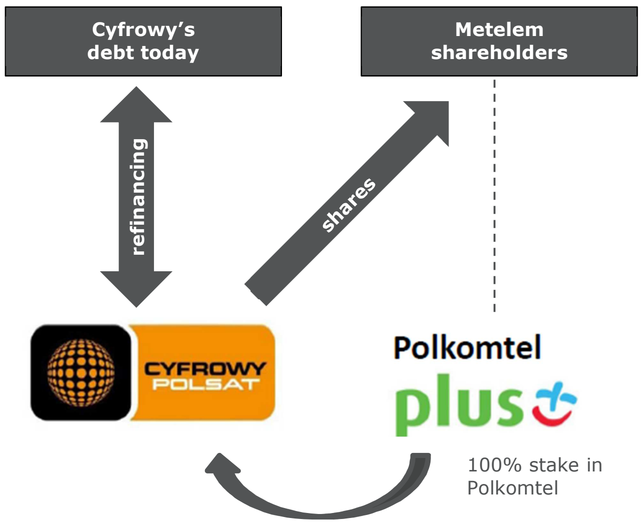
	900 MHz	1800 MHz	2100 MHz	% of total
TPSA	13.6	19.2	34.6	19%
T-Mobile	18	39.2	34.6	26%
Polkomtel	18	19.2	34.6	20%
Aero2	10	0	0	3%
Mobyland	0	19.6	0	6%
Centernet	0	19.6	0	6%
Play	0	30	34.6	21%

Source: Dom Maklerski mBanku

The takeover

In November 2013, Cyfrowy Polsat signed an agreement to acquire a majority stake (83.8%) in Metelem Holding Company Limited, the sole owner of the mobile operator Polkomtel, in a stock-for-stock transaction. In December, the European Bank for Reconstruction and Development also agreed to sell its 16.2% stake in Metelem. Valued at 5.7x LTM EBITDA at September 30, 2013 (PLN 2.9 billion), after adjustment for Polkomtel's PLN 10.2bn billion net debt, the enterprise value of the 100% Metelem stake was determined to be PLN 6.15 billion.

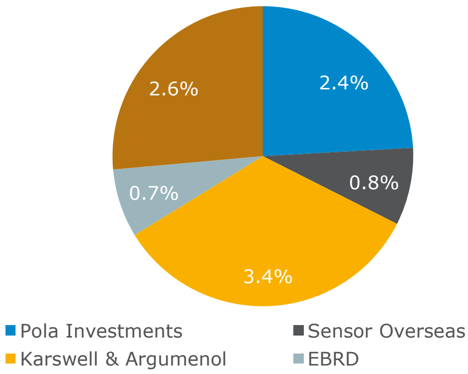
Polkomtel takeover process chart



Source: Cyfrowy Polsat

In exchange for the Metelem shares, Cyfrowy Polsat is going to issue 291.93 million warrants to purchase the same number of shares at PLN 21.12 each to Argumenol, Karswell, Sensor, and EBRD.

Cyfrowy Polsat's ownership after Polkomtel takeover



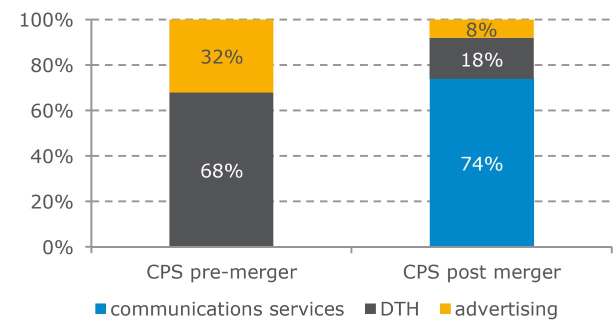
Source: Dom Maklerski mBanku

After the merger with Polkomtel Mr. Solorz-Żak will have an indirect 57.9% equity stake and a 63.8% voting stake in Cyfrowy Polsat via Karswell and Argumenol. Mr. Solorz-Żak agreed not to sell his interests in the merged company, however, no lock-up period has been set on the new shares.

Implications

The merger with Polkomtel transforms Cyfrowy Polsat into a completely different business. In 2013, 63% of the Company's revenue and 68% of EBITDA was originally supposed to be provided by the retail segment (mainly DTH and Internet). Looking at pro-forma post-merger financials, however, we see that going forward Polkomtel will be generating 71% of the consolidated annual revenues and 74% of the annual EBITDA of the merged company, with Cyfrowy's retail and advertising segments contributing 18% and 8%, respectively, each. Disregarding the growth potential lying in bundled services, these proportions do not look good given that the mobile market is much more competitive than the DTH and TV markets, and that Cyfrowy's exposure to a growing advertising market is going to shrink post merger. On the other hand, the merger has potential to generate significant synergies through economies of scale and cross-selling of services.

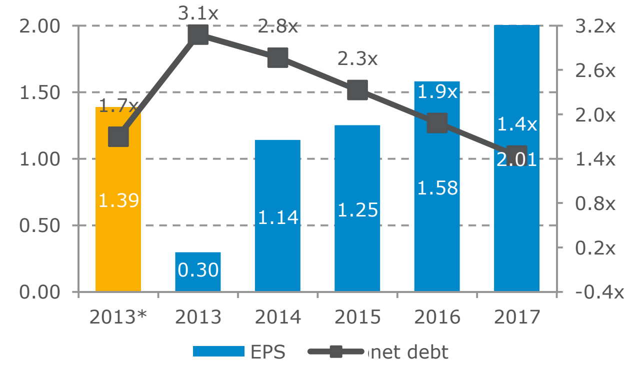
Pre- and post-merger EBITDA breakdown



Source: Dom Maklerski mBanku

Further, the issue and listing of the merger stock is set to dilute Cyfrowy's ownership and temporarily bring its EPS down from PLN 1.39 to an estimated PLN 0.29. Cyfrowy's Management expect EPS to return to normal within three years, i.e. by mid-2017, but we believe EPS can rebound over PLN 1.44 (LTM 3Q'13 ex FX differences) sooner, in H1 2016, potentially providing upside surprise. Moreover, by acquiring Polkomtel's PLN 12.1bn debt (net debt/EBITDA = 3.6x), Cyfrowy is ramping up its own debts from PLN 1.8bn (1.8x EBITDA) to PLN 12.0bn (3.1x EBITDA), which means no payout to shareholders this year. The Company's Management intends to work on bringing the net debt/EBITDA ratio below 2.5x by the end of 2016, but, again, we are confident that this target can be achieved earlier, before the end of 2015, given the cash flows expected to be generated post merger (we anticipate CFO of PLN 3.4-3.6bn and FCF of PLN 2.3-2.6bn 2014-2016).

Impact of Polkomtel takeover on EPS (lhs) and net debt (rhs)



Source: Dom Maklerski mBanku; *before the merger

Synergies

Cyfrowy Polsat expects to achieve considerable operational synergies in the region of PLN 3.5 billion through 2019 from the Polkomtel takeover. Revenue and cost synergies are projected to give a boost to the post-merger EBITDA margin by ca. 2ppts through 2016 and a further 1.5ppts in 2017-2019. Moreover, better debt service terms achieved through reduced interest and improved financing terms are expected to generate additional savings of ca. PLN 0.5bn a year through 2019. Detailed synergy estimates are outlined below.

Revenue synergies

Cyfrowy estimates that there is a 20% overlap between its and Polkomtel's customer base. Assuming 3.2 people per household, Cyfrowy's DTH service can be said to have 11.2 million users. For Polkomtel's mobile network Plus, we take the customer base to be all of the 7.4 million post-paid subscribers and half of the pre-paid users (3.4 million), making for a total of 10.8 million customers. Using these calculations, the 20% customer overlap would make for 2.2 million shared users. We assume that 10% of the remaining 9.1 million Cyfrowy customers (i.e. over 900,000 users) will buy a calling plan from Plus, and that half of them will additionally opt for mobile Internet. The decreases in ARPU will amount to an estimated 40% for mobile voice and 70% for mobile broadband.

Revenue projection for Plus calling plan cross-sell to Cyfrowy customers

(PLN)	2014	2015	2016	2017	2018	2019
Service allocation	5%	20%	50%	75%	90%	100%
new subscribers ('000)	45.1	180.5	451.3	677.0	812.4	902.7
post paid ARPU:						
outgoing calls	47.8	47.0	46.3	45.8	45.6	45.6
Mobile Internet	48.0	48.0	48.0	48.0	48.0	48.0
outgoing -40%	28.7	28.2	27.8	27.5	27.3	27.4
Mobile Internet -70%	14.4	14.4	14.4	14.4	14.4	14.4
Revenue (PLN m)	9.7	48.0	132.5	234.7	308.7	355.7
EBITDA (PLN m)	4.2	20.6	56.5	99.3	129.4	147.8
2014-2019 TOTAL (PLN m)						1,089.3

Source: Dom Maklerski mBanku

Conversely, Cyfrowy's DTH service can be offered as a cross-sell product to the existing customers of Plus, though the revenue-generating potential of this configuration seems much smaller to us. We believe only 5% of the contract customer base (excluding 15% business customers) makes for a potential cross-sell target. Taking into account Cyfrowy's existing users and a 150% mobile market penetration rate (in SIM cards), the prospective customer base for DTH cross-sale is 340,000 people.

Revenue projection for Cyfrowy DTH TV cross-sell to Plus customers

(PLN)	2014	2015	2016	2017	2018	2019
Service allocation	5%	20%	50%	75%	90%	100%
new subscribers ('000)	16.8	67.1	167.8	251.7	302.1	335.7
ARPU:						
"Family" channel package	50.4	51.4	52.4	53.5	54.5	55.6
"Family" channel package – 40%	30.2	30.8	31.5	32.1	32.7	33.4
Revenue (PLN m)	3.0	15.5	44.3	80.8	108.7	127.7
EBITDA (PLN m)	1.0	5.1	14.6	26.8	36.1	42.4
2014-2019 TOTAL (PLN m)						380.1

Source: Dom Maklerski mBanku

Cost synergies

The potential for cost synergies lies mainly in the integration of duplicate business functions in our view. We would identify the main areas where the merged Cyfrowy can effect cost cuts in the next few years as IT (we anticipate that the computer systems of both companies will be merged in 2016), call centers, marketing, customer service, and sales (Cyfrowy Polsat intends to significantly reduce the number of sales locations after the merger). More cost synergies will come from lower costs of customer retention as Cyfrowy estimates that service bundling can reduce the churn rate by 20%. Finally, the merged Cyfrowy will have greater bargaining power which it can use to negotiate bigger discounts with vendors. We project that Cyfrowy can actually achieve 53% of the PLN 1.5bn cost synergies projected for 2014-2019.

Cost synergy projection

(PLN m)	2014	2015	2016	2017	2018	2019
pct. of synergy target	0%	12%	30%	53%	76%	100%
Impact on EBITDA	0	92	144	179	185	190
2014-2019 TOTAL						790

Source: Dom Maklerski mBanku

Financing synergies

As a prerequisite to finalizing the Polkomtel takeover, Cyfrowy Polsat needs to refinance its PLN 1.82 billion debt (as of 30 Sep. 2013) to ensure that it does not violate financing terms. While we believe that by refinancing the Company could lower bank lending margins to ca. 2.0%, in order to gain more investing flexibility, it will probably accept a higher margin of about 3.0%, implying an effective cost of ca. 5.7% (slightly higher than incurred by Polkomtel on secured loans). Similarly, Polkomtel has stated a willingness to refinance its outstanding payment-in-kind notes with a coupon rate of 14.25% p.a. Based on a similar refinancing push completed recently by Polish Television Holding (owner of Cyfrowy's TV rival TVN), we estimate that the demand for the PIK notes could reach 11.75%. This gives rise to potential financing synergies if Polkomtel refinances the notes at a much lower costs, and assuming that Cyfrowy Polsat will agree to secure the financing (by borrowing a further PLN 1 billion or so to fund a buyout of both companies' debts at 3% for Polkomtel's PIK and 5.4% for its own EUR 350m senior notes). Further synergies can be achieved if Polkomtel refinances outstanding 11.75% Euro Senior Notes and 11.625% Dollar Senior Notes. The first call date for these notes is in 2016. Until then, Cyfrowy should report net debt ratios around 2.1x EBITDA. The Company will be able to refinance all of the foreign-currency debt and take out zloty financing at much lower lending margins. We do not take the 2016 refinancing effects into account for now in our financial projections for Cyfrowy.

Financing synergies

(PLN m)	2014	2015	2016	2017	2018	2019
principal (USD m)	246.9	246.9	246.9	246.9	246.9	246.9
USD/PLN	3.2	3.2	3.2	3.2	3.2	3.2
principal (PLN m)	780.8	777.7	777.7	777.7	777.7	777.7
interest after Polkomtel debt refinancing	85.8	87.7	87.7	87.7	87.7	87.7
interest after Cyfrowy debt refinancing	44.4	48.9	52.8	57.5	57.5	57.5
difference	41.3	38.8	34.9	30.2	30.2	30.2
2014-2019 TOTAL						205.7

Source: Dom Maklerski mBanku

Summing up, we project that Cyfrowy will achieve total synergies of PLN 2,465 million in 2014-2019, compared to the Company's own target of PLN 4,000 million. Of the total, we estimate that revenue synergies will amount to PLN 1,469m (73% of target), cost synergies will be PLN 790m (53% of target), and financing synergies will total PLN 206m (41% of target).

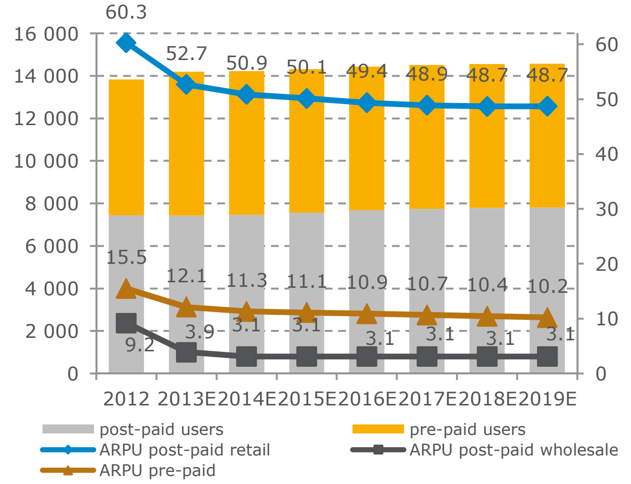
Financial Standing and Future Outlook

Polkomtel

Our financial forecasts for Polkomtel assume a growing post-paid subscriber base driven by increasing mobile Internet usage by smartphone owners (mobile dongle data customers). We expect the number of mobile broadband subscribers to increase by 370,000 to 1.1 million by 2016, offsetting a small decrease (by 120,000 to 6.6 million) in voice subscribers.

The pre-paid customer base is expected to remain at a steady 6.8 million throughout the forecast period. At the same time, a continued deterioration in monthly ARPU from both post-paid and pre-paid services will be accompanied by increasing ARPU from data. After the string of cuts effected in the last few years, mobile termination rates, which are currently among the lowest in the EU at 4.29 groszy per minute, are not likely to be reduced further in the coming years.

Polkomtel ARPU (PLN) and customer ('000) projection



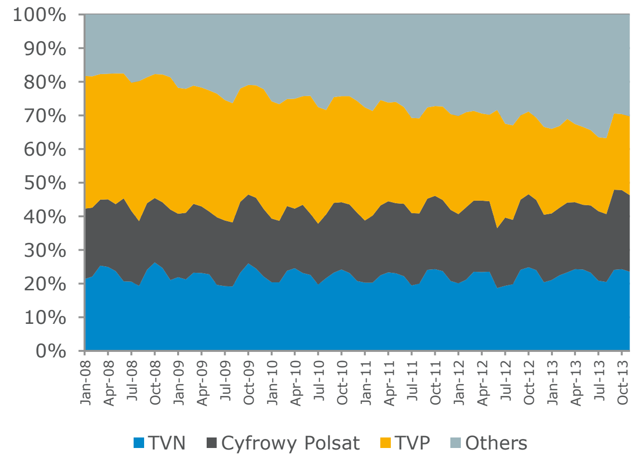
Source: Dom Maklerski mBanku

As for costs, Polkomtel going forward is expected to see rising costs of goods sold (expensive smartphones) combined with falling D&A expenses. A natural D&A level for the Company if PLN 1.4-1.5 billion. The takeover in early 2013 of Polkomtel's direct owner, Spartan, together with its intangible assets, meant that the Company's D&A expenses for last year received a one-time boost of ca. PLN 0.3-0.4bn. Finally, after the takeover by Cyfrowy, Polkomtel will probably continue to reduce costs through downsizing and changes in employee incentives.

Cyfrowy Polsat before merger

If it were not merging with Polkomtel, Cyfrowy Polsat should have retained EBITDA margins at 33-34% in the next six years. As for sales, revenues from subscription fees are set to grow at an annual rate of 2.7% through 2019 thanks to a stabilized subscriber base and an expansion in the ARPU from the "Family" channel package from PLN 46.6 in 2012 to PLN 52.4 in 2016. Additional subscription revenue growth will be achieved from an increasing mobile Internet customer base, expected to grow from 150,000 close to 400,000 in 2016. As for the TV segment, we project a rebound in the advertising market by 3.7% in 2014 and 4.5% in 2015, driven by stronger GDP in Poland and a general recovery in the global ad market. We anticipate that TV ad expenditures will increase faster than average, at annual rates of 4.9% in 2014 and 5.8% in 2015, supported by the strengthening negotiating positions in ad time sales of the commercial networks Polsat and TVN (which between them control over 65% of the market). We are quite confident that prices of television ad time will go up in 2014. We base this belief on the structure of the Polish market where most TV stations sell virtually all of their commercial airtime available, ensuring balance. Under a simple economic rule of thumb, increasing demand accompanied by steady supply creates room for higher prices. The supply of ad time in Poland is set to increase as more new free channels are launched via DVBT, however, we believe this does not threaten the market position of Cyfrowy Polsat which is responding to the rising dispersion of television audiences by increasing its offer of targeted special-interest channels (in 2013, the Company acquired the channels TV4 and TV6). Since most of the Polish TV audiences have already made the shift from watching more of special-interest programming than mixed-programming channels, the addition of new channels to the existing 18 should not affect Cyfrowy's viewership.

Total day viewership in the 16-49 demographic



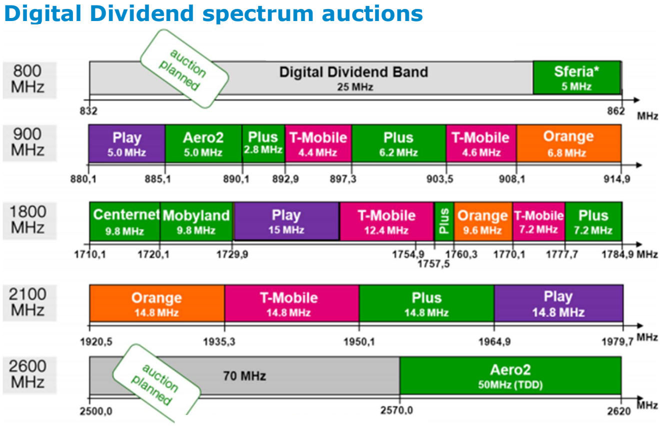
Source: Nielsen

Cyfrowy Polsat's television business further stands to benefit from the planned change in Poland's public media financing model. The Polish Ministry of Culture is preparing a new media bill which proposes to replace the current TV and radio license fee with an "audiovisual fee." The Ministry says the audiovisual fee will hover around PLN 10-12 a month per household, making for an annual total of PLN 1.6-1.9 billion going into the budgets of public broadcasters (assuming 90% recovery rate) which will triple relative to current license fee receipts of PLN 550 million. The public TV broadcaster TVP had a 23.4% share in total TV ad spend in Q3 2013, translating to an annual revenue of ca. PLN 800m. We believe the introduction of the audiovisual fee will also benefit commercial broadcasters like Cyfrowy Polsat. For one, from what we know at this point, the government's plan is to curb the amount of commercials aired by public channels in the future. If these plans change, TVP's market share will receive a significant boost in the short term. In the long term, however, an unlimited advertising offer will become secondary to the public service requirement that public media are obliged to fulfill. Public service programming tends to draw smaller audiences than commercial shows, which means TVP channels may be poised to lose viewers and hence also advertising revenues. Nevertheless, we believe the public media financing reform will be implemented as a way of bringing Poland up to European standards (in other countries, equivalents of the audiovisual fee are the main source of public media financing) and addressing the instability of TVP's revenues stemming from falling license fee receipts.

CAPEX

We estimate 2013 CAPEX at PLN 149m at the "old" Cyfrowy Polsat and PLN 850m at Polkomtel (as stated by its Management Board). Polkomtel's sales-to-CAPEX ratio (including one-time gains) is expected to be 15% in 2014 and 2015 and 14% in subsequent years, making for a more conservative assumption than the Company's own projections. Polkomtel's capital investment focuses mainly on the development of network infrastructure (ca. 75-80% of total CAPEX) and IT (ca. 20%). Note that the CAPEX forecasts do not include the potential costs of 800 MHz frequencies and the consequent network development costs that Polkomtel will incur if it wins the auction. It is unknown at this time whether Midas or Polkomtel will be paying for the frequencies. Even if it is Polkomtel, however, the CAPEX burden will not be excessive given the lower-than-originally-thought price (ca. PLN 400m for 10 MHz in the 800 MHz band), and considering that Company spends less on network development than other operators (ca. PLN 300m).

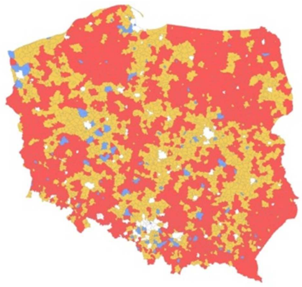
Digital Dividend spectrum auctions



Source: TPSA

Upcoming auctions for the so-called "digital dividend" spectrum licenses in Poland include one for nineteen blocks, including five blocks of 2x5 MHz each in the 800MHz band and fourteen 10MHz blocks in the 2.6GHz band. These frequencies can be used to offer broadband data transmissions via mobile networks, including via LTE, for a period of 15 years. The ask price per block is PLN 250m in the 800 MHz band and PLN 25m per block for the 2.6 GHz band, which implies total bids of at least PLN 1.6bn. Each bidder can win up to two blocks in the 800 MHz band, i.e. 20 MHz total. However, the winner is allowed to use only 30 MHz in that band to build a network. The requirement is to deliver coverage with these frequencies within 24-48 months to 83-89% minimum of the following municipalities selected by the telecom regulator UKE.

800 MHz coverage obligation, LTE coverage via Plus network



Source: UKE, Plus

Mobile data coverage obligation in details

	No. of munici-palities	Population ('000)	Area ('000 km^2)	83-89% coverage deadline
Group 1	1,242	9,235.0	180.2	24 months
Group 2	1,053	11,218.8	115.3	36 months
Group 3	91	3,501.9	8.2	48 months
Total	2,386	23,955.8	303.8	
Nationwide	2,479	38,533.3	312.7	

Source: UKE

All major Polish telecom players have declared an intention to participate in the digital dividend auction, including the incumbent TPSA which claims that it will spend between a billion and 2 billion zlotys this year on frequencies. In our opinion, the bidding will not reach numbers quite as high given the 30 MHz cap on the frequencies which can be used for infrastructure development (T-Mobile and Orange will probably build a joint network, which means they need three out of the five bands available), and considering that one of the bidders, P4, the owner of the "Play" network, operates mainly in urban densely populated areas, while the regulator's goal in the current auction is to provide LTE connectivity to more rural areas. Secondly, assuming the winner agrees to spend PLN 1 billion on the two blocks offered in the 800 MHz band, it could subsequently spend up to PLN 600 million on developing the network, making for a total CAPEX of PLN 1.6 billion. If we add to this the PLN 100m minimum CAPEX needed for network development in case of a win in the 2.6 GHz frequency auction, and the PLN 0.5 billion bid with which P4 won the 1800 MHz auction, the total costs of securing frequencies and providing coverage add up to as much as PLN 2.2 billion. At this level, they would ramp P4's net debt-to-EBITDA ratio from an estimated 2.0x to about 3.8x. In this context, a more reasonable option for P4 would be to only bid for the 2.6 GHz blocks and offer LTE through a third-party network, for instance Polkomtel's.

Debt and cash flow

As of 30 September 2013, Polkomtel had net debt of PLN 12.056 billion (including PLN 7.598bn bank loans and 522 million euro debt and 727 million dollar debt). On 18 November 2013, the Company repaid PLN 800m of its obligations, including PLN 541.8m under Senior Facility Agreement (SFA) A, PLN 179.3m under SFA B, and PLN 79.0m under SFA C.

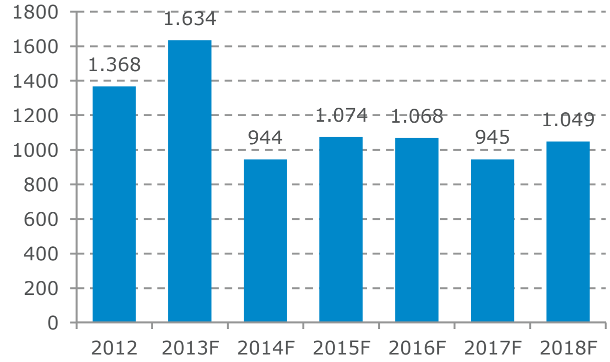
Metelem debt after 18 November 2013 payments

	book value	Share in total debt	pricing	cost
Senior Facility Agreement A	PLN 2,093m	18.7%	WIBOR +2.25%	4.920%
Senior Facility Agreement B	PLN 3,097m	27.6%	WIBOR +2.75%	5.420%
Senior Facility Agreement C	PLN 1,607m	14.3%	WIBOR +3.25%	5.920%
Senior Notes EUR	EUR 522m (PLN 2,177m)	19.4%	11.750%	11.750 %
Senior Notes USD	USD 491m (PLN 1,514m)	13.5%	12.625%	12.625 %
Payment in Kind Notes USD	USD 237m (PLN 731m)	6.5%	14.250%	14.250 %
TOTAL	PLN 11,220m			8.175%
Cash and cash equivalents	PLN 1,087m			
Net debt	PLN 10,133m			
Net debt/EBITDA	3.6x			

Source: Polkomtel, estimates by Dom Maklerski mBanku, WIBOR 3M, EUR/PLN and USD/PLN as of 18 Nov. 2013

Including Cyfrowy's net debt as of 30 September 2013 of PLN 1,817m, the total net debt of the merged Company adds up to PLN 13.04 billion, making for a net debt/EBITDA ratio of 3.1x. Note that Polkomtel was able to reduce its financing costs on 2011 loans considerably since mid-2013 by negotiating lower lending margins. The effective financing cost now is 8.2%, which is not excessive in our view given the size of the debt, which is among the highest of all telecoms in the world. The refinancing brought interest expenses down by nearly PLN 100m (28%) in Q3 2013 to PLN 253m. Further, Polkomtel can refinance its 14.25% payment-in-kind notes at what we expect to be 11.75%. In 2014, we project annual interest expenses will approximate PLN 870m plus costs of exercising the PIK repurchase option at 3%. Further, Cyfrowy may refinance EUR 350m Senior Notes to zloty debt in 2014, resulting in a reduction in financing costs from 7.2% to ca. 3%+WIBOR. Summing up, we believe financing synergies can help reduce annual interest expenses by over PLN 0.4bn in 2014 (not including refinancing by Polkomtel of Senior Notes EUR 522m and USD 491m).

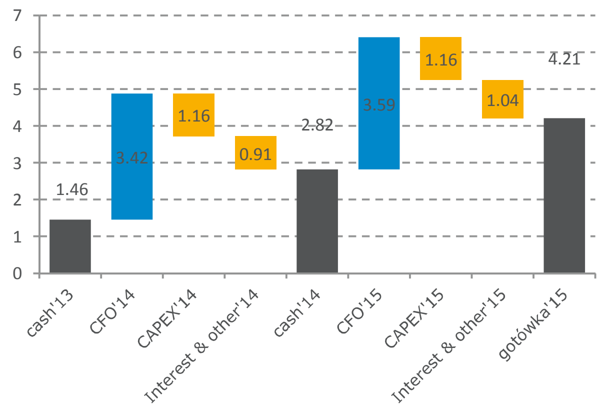
Net financing activity at merged Cyfrowy (pro forma) (PLN m)



Source: Dom Maklerski mBanku

The merged Cyfrowy Polsat will gain enormous cash-generating capacity, with CFO in 2014-2016 projected at PLN 3.4-3.6 billion, and FCF expected to total PLN 2.3-2.6 billion.

2014 and 2015 cash flow projection (PLN bn)



Source: Dom Maklerski mBanku

We believe Cyfrowy Polsat can reduce net debt /EBITDA below 2.5x as soon as in 2015 (we expect to 2.3x), but this assuming that it is not made to take over Midas, which is Polkomtel's provider of data transmission capacity (paying PLN 0.00477-0.036 per 1MB of data) and infrastructure tenant all in one. That said, given Midas's current market cap of PLN 1.0bn, it would cost Polkomtel about PLN 335m to acquire a 33% stake in its partner – an amount which would not cause the mitigated debt/EBITDA ratio to increase too much in 2016 (PLN 335m = 42% of annual 2016F FCF).

Valuation

Using DCF analysis and relative valuation, we set our nine-month price target for CPS stock at PLN 24.10 per share.

(PLN)	Weight	Price
Relative Valuation	50%	22.0
DCF Analysis	50%	22.9
	Estimated Price	22.5
	9M Target Price	24.1

DCF Analysis

Assumptions:

- The forecast period is FY2014-FY2021.
- The risk-free rate in the forecast period is 4.5%.
- We assume FCF will grow at a rate of 0.0% after the forecast period.
- Net debt is as projected for year-end 2013 (PLN 11.8bn).
- Financial forecasts for the merged company are made by combining respective financials including synergy effects.
- We assume that Cyfrowy will achieve total synergies of PLN 2,465 million in 2014-2019, compared to the Company's own target of PLN 4,000 million. Of the total, we estimate that revenue synergies will amount to PLN 1,469m (73% of target), cost synergies will be PLN 790m (53% of target), and financing synergies will total PLN 206m (41% of target).
- The effects of synergies for EBITDA are calculated based on the EBITDA margins achieve by the two companies
- CAPEX in the residual period (adjusted upward for STB costs incurred by the "old" Cyfrowy) is equal to D&A.

Additional assumptions

(PLN)	2013	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Average EUR/PLN	4.11	4.05	3.93	3.90	3.90	3.90	3.90	3.90	3.90
Year-end EUR/PLN	4.15	3.95	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Average USD/PLN	3.13	3.16	3.15	3.15	3.15	3.15	3.15	3.15	3.15
Year-end USD/PLN	3.01	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15
WIBOR 3M	2.7%	2.7%	3.3%	3.8%	4.4%	4.4%	4.4%	4.4%	4.4%
Post-paid ARPU	52.66	50.88	50.14	49.36	48.89	48.67	48.71	48.75	48.78
Pre-paid ARPU	12.10	11.30	11.10	10.90	10.68	10.43	10.19	9.97	9.75
Post-paid data ARPU	8.12	9.08	9.94	10.76	11.36	11.83	12.20	12.57	12.94
Post-paid outgoing ARPU	3.90	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10
post-paid users (millions)	7.43	7.46	7.56	7.68	7.75	7.79	7.81	7.83	7.85
pre-paid users (millions)	6.76	6.76	6.76	6.76	6.76	6.76	6.76	6.76	6.76

DCF Model

(PLN m)	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2021+
Revenue	9,568	9,337	9,501	9,738	9,979	10,184	10,362	10,503	10,618	
change		-2.4%	1.8%	2.5%	2.5%	2.1%	1.8%	1.4%	1.1%	
EBIT	1,756	1,807	2,031	2,292	2,505	2,656	2,783	2,967	3,041	
EBIT margin	18.4%	19.3%	21.4%	23.5%	25.1%	26.1%	26.9%	28.3%	28.6%	
Tax on EBIT	334	343	386	436	476	505	529	564	578	
NOPLAT	1,422	1,463	1,645	1,857	2,029	2,151	2,254	2,403	2,463	
D&A expenses	2,070	1,933	1,835	1,694	1,586	1,492	1,410	1,247	1,182	
CAPEX	-999	-1,157	-1,162	-1,100	-1,132	-1,135	-1,138	-1,142	-1,144	
Working capital	-446	-185	-122	-120	-121	-120	-121	-121	-120	
FCF	2,048	2,054	2,197	2,331	2,361	2,388	2,405	2,387	2,380	2,380
WACC	9.3%	7.6%	8.1%	8.2%	8.2%	8.6%	8.8%	9.0%	9.3%	9.3%
discount factor	100.0%	92.9%	85.9%	79.4%	73.4%	67.6%	62.1%	57.0%	52.1%	47.7%
PV FCF	2,048	1,908	1,888	1,851	1,733	1,614	1,494	1,360	1,241	1,241

WACC	9.3%	7.6%	8.1%	8.2%	8.2%	8.6%	8.8%	9.0%	9.3%	9.3%
Cost of debt	11.3%	6.7%	7.7%	7.7%	6.9%	7.6%	7.6%	7.7%	7.7%	7.7%
Risk-free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk premium	6.8%	2.2%	3.2%	3.2%	2.4%	3.1%	3.1%	3.2%	3.2%	3.2%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	49.6%	46.4%	42.9%	38.6%	33.0%	27.7%	21.5%	14.3%	5.9%	5.9%
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF after the forecast period	0.0%
Terminal value	25 581
Present value of residual value (PV TV)	13 336
Present value of FCF in the forecast period	13 089
Enterprise value (EV)	26 425
Net debt (year-end 2013)	11 780
Other noncore assets	0
Minority interests	0
Equity value	14 645
Number of shares (millions)	640
Equity value per share (PLN)	22.9
9M cost of equity	7.1%
9M target price	24.5
EV/EBITDA ('14) for the target price	7.0
P/E ('14) for the target price	21.5
TV / EV	50%

Sensitivity Analysis

	FCFF growth in perpetuity				
	-1.00%	-0.50%	0.00%	0.50%	1.00%
WACC +1.0 p.p.	18.5	19.2	20.1	21.1	22.1
WACC +0.5 p.p.	20.3	21.2	22.2	23.3	24.5
WACC	22.4	23.4	**24.5**	25.8	27.2
WACC -0.5 p.p.	26.6	24.6	27.1	28.6	30.3
WACC -1.0 p.p.	29.3	27.1	30.0	31.7	33.7

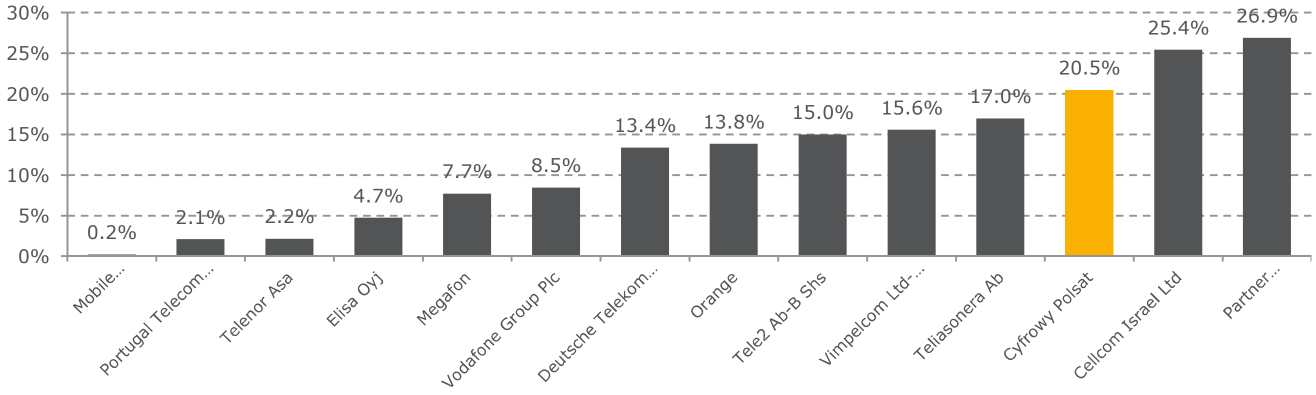
Relative Valuation

For the following reasons, we decided to use only the EV/EBITDA multiple for relative valuation purposes in case of CPS:

- The net earnings of Polkomtel, and hence also of the merged company, are depressed by amortization expenses related to the acquisition of Polkomtel's the parent company Spartan. We estimate the one-time boost to 2013 D&A expenses at ca. PLN 0.3-0.4bn.
- EV/EBITDA can be an accurate value indicator for companies that incur high capital expenditures, i.e. telecom operators, because it accounts for the different levels of D&A incurred by these companies.

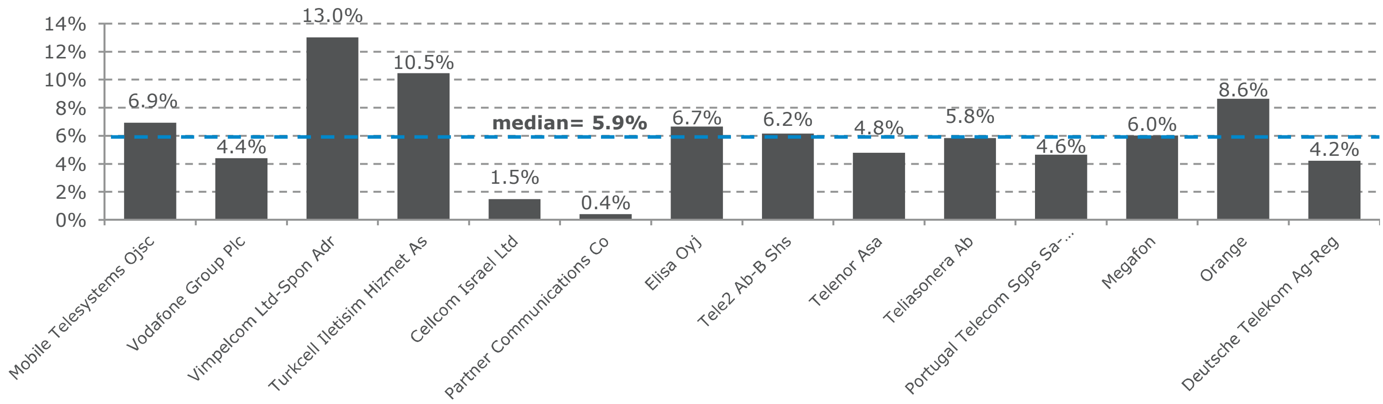
At the same time, Polkomtel's EV/EBITDA-based valuation is negatively impacted by its high net debt (3.6x LTM EBITDA in Q3'13) which we expect to be reduced in the coming years (to 2.5x in 18 to 24 months) with the help of high cash flows. To reflect that, the forecast years (2013, 2014, 2015) are assigned respective weights of 75%, 15%, and 15%. We constructed EV/EBITDA by weighing the median multiples of peers by EBITDA generated by the relevant segments of the merged company. Finally, we applied a 6% discount to the peer medians to account for a lack of dividends.

FCF yield: Cyfrowy Polsat vs. peers



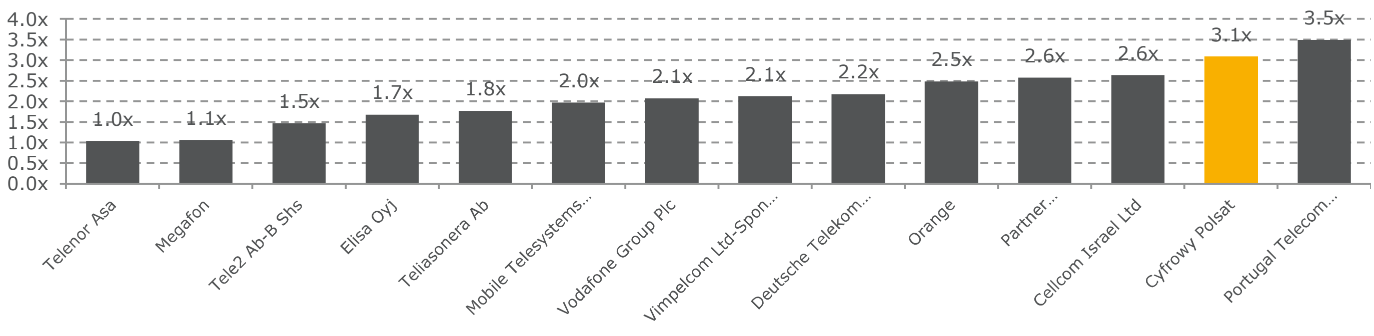
Source: Bloomberg, Dom Maklerski mBanku

Peer dividend yield



Source: Bloomberg, Dom Maklerski mBanku

Net debt/EBITDA: CPS vs. peers



Source: Bloomberg, Dom Maklerski mBanku

Multiples Comparison

	EV/EBITDA			P/E		
	2013F	2014F	2015F	2013F	2014F	2015F
Telecoms						
Mobile Telesystems Ojsc	4.7	4.6	4.4	7.8	8.3	8.1
Vodafone Group Plc	10.6	10.9	10.6	15.4	17.1	18.6
Vimpelcom Ltd-Spon Adr	4.5	4.5	4.4	11.2	10.3	9.3
Turkcell Iletisim Hizmet As	5.6	5.1	4.8	10.6	9.9	9.7
Cellcom Israel Ltd	6.5	6.3	6.0	16.4	13.8	10.5
Partner Communications Co	7.4	6.6	6.1	33.8	21.2	15.2
Elisa Oyj	8.5	8.2	8.2	15.1	14.2	14.0
Tele2 Ab-B Shs	7.0	6.5	5.9	21.2	16.5	13.6
Telenor Asa	7.5	6.9	6.5	14.3	12.7	11.5
Teliasonera Ab	8.1	8.0	7.9	12.1	11.7	11.2
Portugal Telecom Sgps Sa-Reg	5.6	5.9	5.8	11.8	24.8	15.0
Megafon	5.8	5.6	5.3	11.5	10.9	10.1
Orange	4.4	4.6	4.7	9.1	9.4	9.4
Deutsche Telekom Ag-Reg	6.0	5.9	5.7	19.2	17.9	16.5
Median	6.2	6.1	5.8	13.2	13.2	11.4
no-dividend discount	6%	6%	6%	6%	6%	6%
Median after discount	5.9	5.8	5.5	12.4	12.4	10.7
DTH Operators						
Comcast Corp-Class A	8.4	7.9	7.4	21.1	18.3	15.9
British Sky Broadcasting Gro	8.7	8.8	8.2	14.4	14.3	12.7
Centene Corp	8.8	6.3	5.3	21.7	17.0	14.1
Shaw Communications Inc-B	7.4	7.2	7.1	15.1	15.1	14.8
Cogeco Cable Inc	6.9	6.1	5.9	11.9	10.8	10.3
Liberty Global Plc-A	11.3	9.0	8.6	-	73.8	40.5
Dish Network Corp-A	11.0	10.1	9.5	32.7	29.7	25.5
Cyfrowy Polsat Sa	6.8	6.4	6.1	13.6	11.9	10.2
Directv	9.2	7.2	6.8	32.6	25.7	20.6
Zon Optimus Sgps Sa	8.7	7.2	7.1	18.1	17.0	14.8
Median	8.4	7.9	7.4	21.1	18.3	15.9
TV Broadcasters						
Ctc Media Inc	7.3	7.0	6.6	12.4	12.8	11.9
M6-Metropole Television	6.9	6.5	6.2	17.3	15.9	14.7
Itv Plc	12.8	11.5	10.5	18.5	16.2	14.8
Rtl Group	12.5	11.9	11.3	20.8	20.3	19.1
Mediaset Spa	8.5	7.4	6.5	132.6	33.1	21.4
Prosieben Sat.1 Media Ag-Prf	12.5	11.6	10.9	19.4	17.1	15.5
Atresmedia Corp De Medios De	14.8	12.6	11.5	562.6	16.7	14.3
Modern Times Group-B Shs	13.3	11.3	10.0	17.2	14.3	12.4
Television Francaise (T.F.1)	9.4	9.6	7.8	21.2	22.1	16.2
Median	12.5	11.3	10.0	19.4	16.7	14.8
Weighted average	7.0	6.5	6.2	14.0	13.6	11.7
premium / discount	-10.73%	-8.55%	-12.26%	350.27%	21.12%	27.67%

Source: Bloomberg, Dom Maklerski mBanku

Income statement

(PLN m)	2011	2012	2013F	2014F	2015F	2016F	2017F
Revenue	2,365.9	2,778.2	2,882.0	6,163.3	9,501.4	9,738.2	9,978.8
change		17.4%	3.7%	113.9%	54.2%	2.5%	2.5%
Polkomtel				3,174.2	6,361.7	6,386.5	6,388.1
Cyfrowy Polsat before merger	2,365.9	2,778.2	2,882.0	2,976.3	3,076.2	3,174.9	3,275.2
synergy			0.0	12.8	63.5	176.9	315.5
EBITDA	735.2	1,032.3	989.8	2,363.7	3,866.3	3,986.6	4,090.2
margin	31.1%	37.2%	34.3%	38.4%	40.7%	40.9%	41.0%
Polkomtel				1,375.8	2,734.5	2,723.5	2,701.1
Cyfrowy Polsat before merger	735.2	1,032.3	989.8	982.7	1,014.1	1,048.0	1,084.1
synergy			0.0	5.2	117.7	215.1	305.0
D&A expenses	174.9	243.1	250.1	1097.8	1835.3	1694.3	1585.6
EBIT	560.3	789.2	739.7	1,265.9	2,031.1	2,292.3	2,504.7
margin	23.7%	28.4%	25.7%	20.5%	21.4%	23.5%	25.1%
Financing gains/losses	-368.2	-93.5	-191.8	-502.5	-1074.0	-1068.0	-945.5
Polkomtel	0.0	0.0	0.0	-441.6	-987.3	-972.3	-849.1
Cyfrowy Polsat before merger	-368.2	-93.5	-191.8	-103.0	-123.4	-130.3	-129.8
synergy			0.0	42.2	36.7	34.6	33.4
Pre-tax profit	192.1	695.7	547.9	763.4	957.1	1,224.3	1,559.2
margin	8.1%	25.0%	19.0%	12.4%	10.1%	12.6%	15.6%
Tax	31.9	97.3	71.2	105.2	156.7	212.8	275.1
Net profit	160.2	598.3	476.7	658.2	800.3	1,011.4	1,284.1
margin	6.8%	21.5%	16.5%	10.7%	8.4%	10.4%	12.9%
Shares at year-end (millions)	348.4	348.4	348.4	639.5	639.5	639.5	639.5
EPS	0.46	1.72	1.37	1.03	1.25	1.58	2.01
CEPS	0.96	2.42	2.09	2.75	4.12	4.23	4.49

Income Statement (pro-forma post merger)

(PLN m)	2011	2012	2013F	2014F	2015F	2016F	2017F
Revenue	9,677.8	9,911.6	9,567.9	9,337.5	9,501.4	9,738.2	9,978.8
change		2.4%	-3.5%	-2.4%	1.8%	2.5%	2.5%
Polkomtel	7,311.9	7,133.4	6,685.9	6,348.4	6,361.7	6,386.5	6,388.1
Cyfrowy Polsat before merger	2,365.9	2,778.2	2,882.0	2,976.3	3,076.2	3,174.9	3,275.2
synergy			0.0	12.8	63.5	176.9	315.5
EBITDA	3,562.1	3,819.9	3,825.8	3,739.5	3,866.3	3,986.6	4,090.2
margin	36.8%	38.5%	40.0%	40.0%	40.7%	40.9%	41.0%
Polkomtel	2,826.9	2,787.6	2,836.0	2,751.6	2,734.5	2,723.5	2,701.1
Cyfrowy Polsat before merger	735.2	1,032.3	989.8	982.7	1,014.1	1,048.0	1,084.1
synergy			0.0	5.2	117.7	215.1	305.0
D&A expenses	1573.9	2233.1	2070.1	1932.7	1835.3	1694.3	1585.6
EBIT	1,988.2	1,586.8	1,755.7	1,806.8	2,031.1	2,292.3	2,504.7
margin	20.5%	16.0%	18.4%	19.3%	21.4%	23.5%	25.1%
Financing gains/losses	-514.2	-1367.5	-1633.9	-944.1	-1074.0	-1068.0	-945.5
Polkomtel	-146.0	-1274.0	-1442.1	-883.3	-987.3	-972.3	-849.1
Cyfrowy Polsat before merger	-368.2	-93.5	-191.8	-103.0	-123.4	-130.3	-129.8
synergy			0.0	42.2	36.7	34.6	33.4
Pre-tax profit	1,474.0	219.3	121.8	862.7	957.1	1,224.3	1,559.2
margin	15.2%	2.2%	1.3%	9.2%	10.1%	12.6%	15.6%
Tax	272.9	-21.7	-68.8	133.1	156.7	212.8	275.1
Net profit	1,201.1	240.9	190.6	729.6	800.3	1,011.4	1,284.1
margin	12.4%	2.4%	2.0%	7.8%	8.4%	10.4%	12.9%
Shares at year-end (millions)	639.5	639.5	639.5	639.5	639.5	639.5	639.5
EPS	1.88	0.38	0.30	1.14	1.25	1.58	2.01
CEPS	4.34	3.87	3.53	4.16	4.12	4.23	4.49
ROAE		3.9%	3.0%	10.6%	10.4%	11.8%	13.2%
ROAA		0.9%	0.8%	3.0%	3.2%	3.9%	4.7%

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Balance Sheet (pro forma)

(PLN m)	2011	2012	2013F	2014F	2015F	2016F	2017F
ASSETS	26,782.0	25,070.8	24,089.2	24,682.7	25,469.7	26,428.4	27,659.1
Fixed assets	22,974.9	21,616.1	20,491.9	19,758.5	19,128.5	18,576.9	18,166.5
Set-top boxes	408.6	420.1	418.4	393.6	370.9	354.0	346.2
Property, plant and equipment	3,992.3	3,408.4	3,114.3	3,106.0	3,134.2	3,152.0	3,231.2
Goodwill	8,972.7	9,128.0	9,198.0	9,198.0	9,198.0	9,198.0	9,198.0
Intangible assets	9,325.2	8,354.2	7,559.2	6,855.7	6,215.0	5,658.4	5,172.4
Long-term programming assets	131.1	98.0	103.4	106.6	111.8	116.0	120.2
Deferred tax assets	66.7	39.4	32.8	32.8	32.8	32.8	32.8
Other	78.3	168.1	65.7	65.7	65.7	65.7	65.7
Current assets	3,807.1	3,454.7	3,597.3	4,924.2	6,341.1	7,851.5	9,492.7
Current programming assets	137.4	141.7	209.0	215.5	226.0	234.5	242.9
Inventories	288.1	300.6	300.0	296.2	301.0	305.4	309.4
Trade receivables	1,286.2	1,445.7	1,413.5	1,381.5	1,392.3	1,404.5	1,416.6
Income taxes receivable	10.1	12.0	32.5	32.5	32.5	32.5	32.5
Other	262.0	138.1	182.2	182.2	182.2	182.2	182.2
Cash	1823.3	1416.8	1460.1	2816.2	4207.2	5692.5	7309.0

(PLN m)	2011	2012	2013F	2014F	2015F	2016F	2017F
EQUITY AND LIABILITIES	26,782.0	25,070.8	24,089.2	24,682.7	25,469.7	26,428.4	27,659.1
Equity	6,168.2	6,341.6	6,532.2	7,261.8	8,062.2	9,073.6	10,357.6
Long-term liabilities	12,066.0	14,688.5	13,657.4	13,651.8	13,622.4	13,554.1	13,485.7
Bonds	1,417.5	5,286.3	5,352.8	5,733.0	5,771.7	5,771.7	5,771.7
Loans	8,328.3	7,309.6	6,371.5	6,041.8	6,041.8	6,041.8	6,041.8
UMTS license payables	1,010.0	899.5	831.0	762.0	693.0	624.0	555.0
Other liabilities	92.0	113.9	109.5	122.6	123.4	124.1	124.7
Deferred tax reserve	1,218.1	1,079.3	992.5	992.5	992.5	992.5	992.5
Current liabilities	8,547.8	4,040.8	3899.6	3769.0	3785.1	3800.7	3815.8
Trade creditors	911.7	988.1	947.1	932.6	948.8	964.4	979.4
Financial obligations	6,043.3	1,412.1	1515.3	1399.2	1399.2	1399.2	1399.2
UMTS license payables	65.0	60.0	60.0	60.0	60.0	60.0	60.0
Taxes payable	42.9	15.1	14.9	14.9	14.9	14.9	14.9
Other	1,484.9	1,565.5	1362.3	1362.3	1362.3	1362.3	1362.3
Debt	15,789.1	14,007.9	13,239.7	13,173.9	13,212.7	13,212.7	13,212.7
Net debt	13,965.9	12,591.2	11,779.6	10,357.7	9,005.5	7,520.2	5,903.6
(Net debt / Equity)	2.3	2.0	1.8	1.4	1.1	0.8	0.6
(Net debt / EBITDA)	3.9	3.3	3.1	2.8	2.3	1.9	1.4
BVPS	9.6	9.9	10.2	11.4	12.6	14.2	16.2

Cash Flows (pro forma)

(PLN m)	2012	2013F	2014F	2015F	2016F	2017F
Cash flow from operating activities	3,403.4	3,449.0	3,421.3	3,587.8	3,653.3	3,694.4
Net profit	80.0	190.6	729.6	800.3	1,011.4	1,284.1
D&A expenses	2,224.1	2,070.1	1,932.7	1,835.3	1,694.3	1,585.6
Financing gains / losses	1,479.2	1,633.9	944.1	1,074.0	1,068.0	945.5
Change in working capital and other	-379.9	-445.7	-185.1	-121.8	-120.4	-120.7
Cash flow from investing activities	-737.6	-998.6	-1,157.5	-1,161.6	-1,100.0	-1,132.4
CAPEX	-583.2	-859.9	-1,088.5	-1,092.6	-1,031.0	-1,063.4
Other	-154.4	-138.7	-69.0	-69.0	-69.0	-69.0
Cash flow from financing activities	-3,069.4	-2,407.1	-907.7	-1,035.3	-1,068.0	-945.5
Debt	-1,489.0	-773.2	36.4	38.8	0.0	0.0
Share float	0.0	0.0	0.0	0.0	0.0	0.0
Dividend/buyback	-101.2	0.0	0.0	0.0	0.0	0.0
Financing gains/losses	-1,479.2	-1,633.9	-944.1	-1,074.0	-1,068.0	-945.5
Change in cash	-403.6	43.3	1,356.1	1,391.0	1,485.3	1,616.5
Cash at period-end	1,416.8	1,460.1	2,816.2	4,207.2	5,692.5	7,309.0
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0
FCF	2665.8	2450.4	2263.8	2426.2	2553.4	2562.0
(CAPEX/Sales)	5.9%	9.0%	11.7%	11.5%	10.6%	10.7%

Trading Multiples (pro forma)

	2011	2012	2013F	2014F	2015F	2016F	2017F
P/E	10.0	49.7	62.8	16.4	15.0	11.8	9.3
P/CE	4.3	4.8	5.3	4.5	4.5	4.4	4.2
P/BV	1.9	1.9	1.8	1.6	1.5	1.3	1.2
P/S	1.2	1.2	1.3	1.3	1.3	1.2	1.2
FCF/EV	-	10.8%	10.3%	10.1%	11.6%	13.1%	14.3%
EV/EBITDA	3.4	6.4	6.2	6.0	5.4	4.9	4.4
EV/EBIT	6.0	15.5	13.5	12.4	10.3	8.5	7.1
EV/S	1.2	2.5	2.5	2.4	2.2	2.0	1.8
DYield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Price (PLN)	18.7	18.7	18.7	18.7	18.7	18.7	18.7
Shares at year-end (millions)	639.5	639.5	639.5	639.5	639.5	639.5	639.5
MC (PLN m)	11,979	11,979	11,979	11,979	11,979	11,979	11,979
EV (PLN m)	25,945	24,570	23,758	22,336	20,984	19,499	17,882

List of abbreviations and ratios contained in the report:
EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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

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HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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