



Dom Maklerski

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Cyfrowy Polsat: reduce (downgraded)

CPS PW; CPS.WA | TMT, Poland

Undeserved Premium To CEE Telecoms, Risk of Midas Acquisition and Large LTE CAPEX

CPS has soared 33% since our January update, and at this point we see no more upside potential in the stock. Adjusted for the effects of its business relationship with the data supplier Midas, Cyfrowy is valued at a 26% premium on 2015E EV/EBITDA relative to CEE peers in the telecoms sector. In our view, CPS does not deserve premium valuation for reasons which can be summarized as follows: (1) Its mobile telecom unit Polkomtel reported y/y EBITDA shrinkage of 13.5% in Q3 2014 despite the launch of mobile device installment plans, moreover its CFO for 9M 2014 fell 22.1% compared to 9M 2013, (2) Cyfrowy faces stiff competition and downward pressure on the prices of mobile services which will weigh on the profits for Q4 2014, (3) Cyfrowy has large debt which it is addressing at a slower rate than we originally thought and which makes its equity valuation much more sensitive than in case of comparable telecoms, (4) Unlike most telecoms, Cyfrowy does not pay dividends, and (5) We suspect Cyfrowy may have targeted for acquisition its data provider Midas as a way of reducing the costs of broadband, giving rise to investment risk stemming from the fact that the two companies share the same principal shareholder. On a positive note, Cyfrowy and Midas are negotiating lower prices for data megabytes, but on the downside the prices matter less than the form of payment for the data which does not necessarily have to change to Cyfrowy's advantage. We are downgrading CPS from hold to reduce with the price target lowered from PLN 23.84 to PLN 22.00.

NetNet & Midas vs. Cyfrowy's CAPEX

The involvement of NetNet, a company associated with Cyfrowy's owner Mr. Solorz-Żak, in the LTE auction is a mark in our view of Cyfrowy's commitment to acquiring two 800 MHz frequency blocks without relying on Midas with its already high debt and CAPEX. Regardless of whether NetNet gets the frequencies, we assume that Cyfrowy will remain Midas's key account. Note that Midas's and NetNet's WACC is lower than Cyfrowy's, hence the NPV of the LTE frequency project and RAN infrastructure is lower for them. This means that it is reasonable for us to include LTE CAPEX of PLN 1,600m into Cyfrowy's valuation.

Risk of Midas acquisition

In our view, sales of Internet plans, increasing smartphone usage, and the widespread of mobile video, will continue to weigh on EBITDA going forward through increasing data costs. For W 2015, assuming Cyfrowy and Midas agree on price discounts, we estimate the total charge against annual EBITDA at PLN 130m. With this in mind, we cannot rule out that Cyfrowy will want to take Midas over as an internal data provider, and this obviously gives rise to increased investment risk.

(PLN m)	2012	2013	2014E	2015E	2016E
Revenue	2 778.1	2 910.7	7 397.1	9 867.6	10 120.7
EBITDA	1 032.1	1 046.3	2 716.9	3 605.5	3 712.4
EBITDA margin	37.2%	35.9%	36.7%	36.5%	36.7%
EBIT	789.1	789.9	1 404.3	1 804.3	2 071.3
Net profit	598.2	525.5	397.2	839.9	1 022.4
P/E	14.6	16.6	40.3	19.0	15.6
P/CE	10.4	11.1	9.4	6.1	6.0
P/BV	3.5	2.9	1.7	1.6	1.4
EV/EBITDA	10.4	9.8	10.4	7.4	6.8

Current Price	PLN 25.00
Target Price	PLN 22.00
Market Cap	PLN 16.0bn
Free Float	PLN 5.4bn
ADTV (3M)	PLN 23.79m

Shareholders

Pola Investments	44.27%
Sensor Overseas	7.27%
Others	48.46%

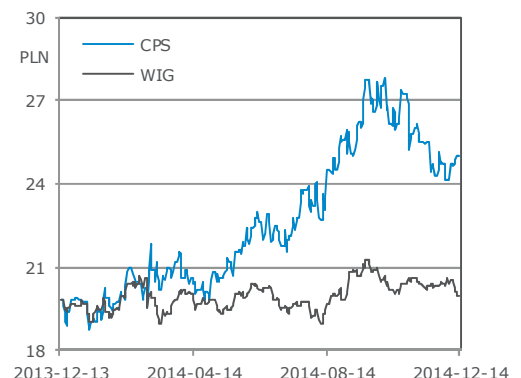
Sector Outlook

The value of the Polish telecommunications market is estimated at PLN 39 billion, including PLN 26bn in mobile telephony at a penetration rate greater than 130%. In the past quarters, the mobile market has been affected by intense competition between the four main operators and 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 television advertising expenses to increase 5% 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 Polsat which in Q3 2013 had an audience share of 21.6%. Moreover, in 2014 Cyfrowy acquired the acquisition of the mobile telecom Polkomtel, a leading Polish carrier with national coverage at 96%.

CPS vs. WIG



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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%
SELL – we expect that an investment will bear a loss greater than 15%
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Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Previous ratings issued for Cyfrowy Polsat

rating	Accumulate	Hold
rating day	2014-06-06	2014-12-05
price on rating day	22.10	24.14
WIG on rating day	52901.29	53346.86

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