

Friday, April 12, 2019 | update

Play: accumulate (upgraded)

PLY PW; PLY.WA | Telecommunications, Poland

Return to higher earnings and high dividend

Since the release of our analytical report in October 2018, Play has risen by 40%. In the meantime, the Company reported a decline in adjusted EBITDA for 2H 2018, which triggered investors' concerns about the company's results in 2019. However, (1) we think that Play, starting Q1 2019, will return to higher earnings - we assume + 6.1% y/y on adjusted EBITDA line. In our opinion, the decline in domestic roaming costs and the improvement in smartphones sales will be visible. Hence, (2) we are increasing the forecasts for 2019 by 5% on the EBITDA line and 11% on the net line. (3) Play is currently listed on EV/EBITDA'19/'20=5.5x/5.5x and P/E'19/'20=7.6x/7.3x. In our view, the level of stock valuation is attractive considering (4) high generated cash flow (PLN 716m in 2019 implies above-average FCFE Yield=12%). (6) Play is still the company with the highest level of dividend in the Polish telecom sector: DivYield'19 = 6.0% vs. 0.0% OPL and CPS = 3.6%. (7) The dividend payout is already set for May 2nd, which may improve the sentiment towards the company in the near future, similarly to (8) purchases of insiders in recent weeks.

A significant improvement in Q1 2018

We estimate that Play will deliver an improvement in y/y trends starting Q1 2019. We assume that the company's revenues will amount to PLN 1,672 million (+ 2.1% y/y). There should be a visible decrease in both domestic roaming costs and other service costs, which will increase the contribution margin to PLN 775 million (+ 6.6% y/y). With slightly higher y/y marketing activity and higher network maintenance costs, we assume that Play will reach PLN 550.1 million of adjusted EBITDA profit (+6.1% y/y). Net profit should amount to PLN 186.2m (+21.8% y/y). We believe that the publication of Q1 2019 earnings will trigger a positive sentiment after a 3.8% drop in y/y adjusted EBITDA in 2H 2018.

The loan situation and high dividend

The level of net debt/EBITDA of Play amounted to 3.1x at the end of 2018. After the reduction of the dividend from PLN 2.56 to PLN 1.45, the company is, in our opinion, on the right path to gradual deleveraging. We assume that the index will reach 2.8x at the end of 2019. Frequency auctions are the key risk. Looking at the ongoing 3.6GHz auctions in Germany, we assume an expenditure of PLN 590 million for 1/4 of the band in Poland. At the same time, we emphasize that the Office of Electronic Communications wants to conduct a tender instead of the auction and distribute the band equally between the operators. This is the best possible scenario for telecoms. Regarding the 700 MHz band auction, we do not think it will happen before 2022.

Lack of stationary leg?

One of the key risks for Play remains the lack of a stationary leg, while each of the other three MVOs has decided to enter the convergence. However, the risk should not be discounted in the valuation of Play assets. In our opinion, the option for the Company is signing leasing contracts of the FTTH network with Orange Polska. By not duplicating the network, Play will ensure the possibility of a convergent offer on its key market of large and medium-sized cities.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	6,669.8	6,839.2	6,991.9	7,112.8	7,260.5
EBITDA	2,297.6	2,159.4	2,261.9	2,312.2	2,370.6
EBITDA margin	34.4%	31.6%	32.4%	32.5%	32.7%
EBIT	1,106.9	1,370.6	1,421.4	1,453.3	1,448.4
Net profit	387.3	744.5	801.0	839.6	850.1
P/E	15.8	8.2	7.6	7.3	7.2
P/CE	5.2	4.0	3.8	3.7	3.5
P/BV	-	-	26.2	8.1	4.8
EV/EBITDA (adj.)	5.6	5.9	5.5	5.5	5.1
DPS	0.00	2.57	1.45	1.27	1.27
DYield	0.0%	10.7%	6.0%	5.3%	5.3%

Current Price	PLN 24.08
Target Price	PLN 26.70
MCap	PLN 6.11bn
Free Float	PLN 3.02bn
ADTV (3M)	PLN 23.7m

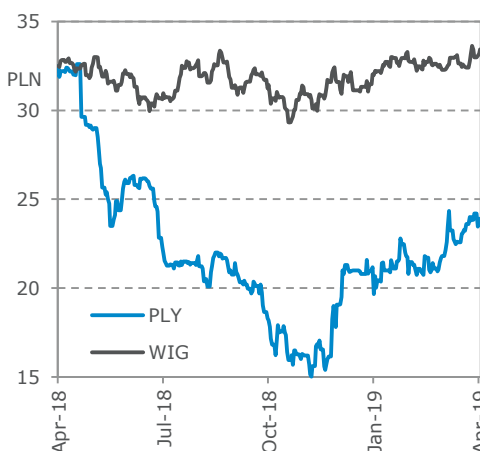
Ownership

Tollerton Investments Limited	27.63%
Telco Holdings S.à r.l.	27.30%
Others	45.07%

Business Profile

Play is the largest mobile network operator in Poland with 14.9 million subscribers and a market share of 28.8%. It caters mainly to individuals in big cities, as well as delivering B2B services. Play is estimated to be the fourth most valuable Polish brand. Its customer base is 61.8% comprised of contract subscribers which account for 77.4% of annual revenue.

PLY vs. WIG



Company	9MTP		Rating	
	new	old	new	old
Play	26.70	21.30	accumulate	hold

Company	Current	Target	Upside
Play	24.08	26.70	+10.9%

Forecast Update	2018E	2019E	2020E
Revenue	+1.2%	+1.3%	+2.1%
EBITDA (adj.)	+4.7%	+4.6%	+5.4%
Net Profit	+11.4%	+15.2%	+14.6%

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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

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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mBank issued the following investment recommendations for Company in the 12 months prior to this publication

Rating	hold	buy	buy	hold	reduce
Rating date	2019-02-04	2018-11-26	2018-10-17	2018-08-30	2018-07-03
Target price (PLN)	21,30	21,30	21,50	22,60	23,50
Price on rating day	22,80	16,54	17,14	21,90	24,88

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