Friday, May 31, 2019 | update

Play: buy (upgraded)

PLY PW; PLY.WA | Telecommunications, Poland

It's not the time yet for taking profits!

Play has risen by 56% since the release of our analytical report in October 2018, ahead of Cyfrowy Polsat by 43%. Despite this, we believe that the company has further potential for growth. (1) The Q1 2019 results confirm our theory regarding breaking the downward trend on the 2018 results. Play has reported an increase in adjusted EBITDA by >11%, and we expect a better result >7% in 2019. (2) The company still generates the highest FCFE Yield in the sector (11.6-12.2% in 2019-20) and declares its payment at 40-50% in subsequent years, which in turn implies (3) the highest dividend level in the sector, DYield'19/20 5.8%/5.2% vs. CPS = 3.7%/3.7% & OPL = 0.0%/0.0%. (4) The group's balance sheet allows this. Net debt/EBITDA is 2.7x, the company has great opportunities for further debt, hence the 5G auction next year should not break the dividend policy, which is currently the key concern of investors. (5) We are upgrading our forecasts and updating ratios for peers. The target price level is set at PLN 29.00, which implies >15% increase.

5G Auction - the key risk for dividend

Play presents the generation of a very high cash flow from operating activities (CFO/capitalization = 31.8%!). Therefore, despite the investment in own network rollout (CAPEX > PLN 800m in 2019, ie 11.6% vs. revenues - quite high for the mobile operator) and relatively high dividends (nearly half of FCFE), the company will decrease the debt level within a year from 3.08x to 2.73x at the end of 2019. Currently, we assume an expenditure of PLN 1.0bn on the 5G frequency in 2020 and the debt ratio in this scenario is @2.88x EBITDA at the end of the year. We believe, however, that even with larger expenditures (PLN 1.5 billion), the ratio increases to 3.13x, which in our opinion will be acceptable for the Company.

Good Q1 2019 results

Play's Q1 2019 results are above expectations. The main surprise was higher profitability on turnover of equipment (as much as 21.5% in the period). We assume a drop in the long-term margin to >17%. Another surprising element was the low cost of domestic roaming (31% down y/y in Q1 2019) while maintaining other cost items. This is the effect of investments in the own network, confirmation of the Management Board's announcement from the end of 2018. This factor will be visible in the results of upcoming quarters. Adjusted EBITDA was higher by 11.2% y/y in Q1, which is a significant change of the result drop in 2018 by 6.0%.

The first signs of market improvement?

Prices of telecommunications services on the Polish market are one of the lowest in Europe (the average mobile ARPU is ca. 54% lower vs. the European average). Orange decided to increase the price of its contract tariffs by PLN 5 in mid-May 2019, while offering larger data packages. We believe that the PLY and CPS management may decide to follow a similar 'more for more' policy, which would reverse the price drops on the market.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	6,669.8	6,839.2	6,963.6	7,061.9	7,184.1
EBITDA	2,297.6	2,159.4	2,312.0	2,376.1	2,426.7
EBITDA margin	34.4%	31.6%	33.2%	33.6%	33.8%
EBIT	1,106.9	1,370.6	1,471.5	1,517.4	1,478.6
Net profit	387.3	744.5	838.8	889.2	865.4
P/E	16.4	8.5	7.6	7.2	7.4
P/CE	5.4	4.1	3.9	3.7	3.6
P/BV	-	-	23.5	7.7	4.7
EV/EBITDA (adj.)	5.7	6.0	5.4	5.6	5.3
DPS	0.00	2.57	1.45	1.31	1.37
DYield	0.0%	10.3%	5.8%	5.2%	5,5%

Current Price	PLN 25.08
Target Price	PLN 29.00
MCap	PLN 6.36bn
Free Float	PLN 3.14bn
ADTV (3M)	PLN 32.3m

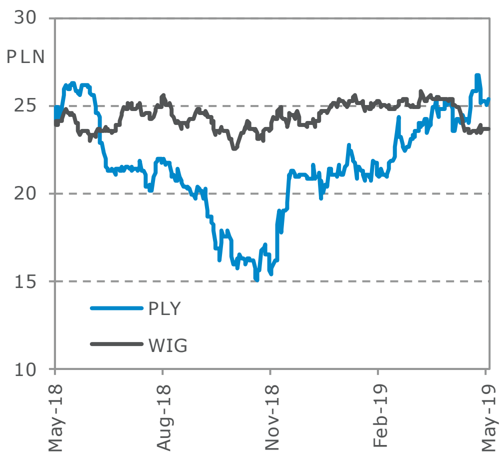
Ownership

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	Target Price		Rating	
	new	old	new	old
Play	29.00	25.25	buy	accumulate

Company	Current Price	Target Price	Upside/ Downside
Play	25.08	29.00	+15.6%

Forecast revision since last update	2019E	2020E	2021E
Revenue	-0,4%	-0,7%	-1,1%
EBITDA (adj.)	+2,2%	+2,8%	+2,4%
Net Profit	+4,7%	+5,9%	+5,3%

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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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.
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mBank issued the following investment recommendations for Company in the 12 months prior to this publication

Rating	**accumulate**	**accumulate**	**hold**	**buy**	**buy**	**hold**	**reduce**
Rating date	2019-05-09	2019-04-12	2019-02-04	2018-11-26	2018-10-17	2018-08-30	2018-07-03
Target price (PLN)	25.25	26.70	21.30	21.30	21.50	22.60	23.50
Price on rating day	24.42	24.08	22.80	16.54	17.14	21.90	24.88

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