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Cyfrowy Polsat: reduce (downgraded)

CPS PW; CPS.WA | TMT, Poland

Undeserved premium to peer group

Over the last 5 months the shares of Cyfrowy Polsat climbed by more than 15%, outpacing the market by nearly 19 percentage points. At the same time, the company announced a dividend payout, which is positive news (in fact, we had been expecting it for a long time). On the other hand, (1) its current DivYield at 3.6% is low in comparison with the peer group (DivYield'19 median for peer group stands at 5.4%) and with the rival PLY PW (DivYield'19 = 5.8%). (2) Moreover, net of the impact of Netia's consolidation and IFRS 16, EBITDA shrank by 6.0% YoY, which came as a disappointment. Despite the above, the company is trading on EV/EBITDA'19 = 6.6x at an over 10% premium to the peer group, which we find undeserved. We estimate EBITDA to stand at PLN 3.75 billion under IAS 17, down by 2.4% compared with the 2018 pro forma figure. This makes Cyfrowy Polsat the only of the three major Polish telecoms to see its earnings drop (vs PLY +7.1%, OPL +2.4%). The decline is attributable not only to Netia but also to the sluggish advertising market (in Q1 2019, spending on TV advertising and sponsorship in Poland fell by 3.1%). Consequently, we updated our forecasts (among others, with the impact of IFRS 16) to arrive at a revised target price of PLN 24.60, which implies that the share price may potentially slide by more than 5%. In our opinion, Play is a more attractive choice in the sector.

Q1 2019 performance

The Q1 2019 results reported by Cyfrowy Polsat match expectations. Our interpretation of KPIs is positive. The strong growth in the number of mobile subscribers continued (+107 thousand in Q1 2019) with ARPU up by 1.2% YoY. Churn rate hit a record low at 7.2%, while RGU per customer was on the rise (2.53 in Q1 2019 compared with 2.40 a year earlier). Excluding the impact of Netia's consolidation, revenues under IAS 17 rose by more than 5%. On the other hand, however, higher operating costs and unfavourable situation on the bad debt market (affecting all MVNOs in Poland) pushed EBITDA down to PLN 836 million, i.e. by 5.7% YoY (under IAS 17, excluding Netia). The result is hardly optimistic, especially when compared with the adjusted EBITDA growth rate reported by Play in Q1 2019 (over 11.0%) and the stable EBITDaL generated by Orange Polska (net of profit from real estate sale).

Sluggish advertising market

In Q1 2019, the TV advertising market shrank by more than 3% YoY. Against this background, Cyfrowy Polsat performed quite well with revenues from advertising and sponsorship up by 0.5% YoY. EBITDA in the TV segment grew by 4.0% YoY in Q1 2019 (excluding the impact of IFRS 16), which in our opinion resulted largely from the sale of broadcasting rights to UEFA Champions League matches to the individual and business clients segment. Without an evident improvement in its market environment, Cyfrowy Polsat will keep struggling to boost its profit from TV advertising, which may dampen investor sentiment towards the company. In the base-case scenario, we assume the TV ads market to bounce back in H2 2019.

(PLN m)	2017	2018	2019E*	2020E*	2021E*
Revenue	9,829	10,686	11,394	11,548	11,759
EBITDA	3,617	3,698	4,179	4,255	4,356
EBITDA margin	36.8%	34.6%	36.7%	36.9%	37.0%
EBIT	1,834	1,727	1,966	2,127	2,317
Net income	981	834	1,224	1,431	1,595
P/E	17.0	19.9	13.6	11.6	10.4
P/CE	6.0	5.9	5.5	5.3	5.2
P/BV	1.4	1.3	1.2	1.1	1.0
EV/EBITDA	7.5	7.2	6.6	6.4	6.0
DPS	0.32	0.00	0.93	0.93	0.93
DYield	1.2%	0.0%	3.6%	3.6%	3.6%

* from FY2019 estimates under IFRS16

Current Price	PLN 26.00
Target Price	PLN 24.60
MCap	PLN 16.6bn
Free Float	PLN 7.0bn
ADTV (3M)	PLN 19.5m

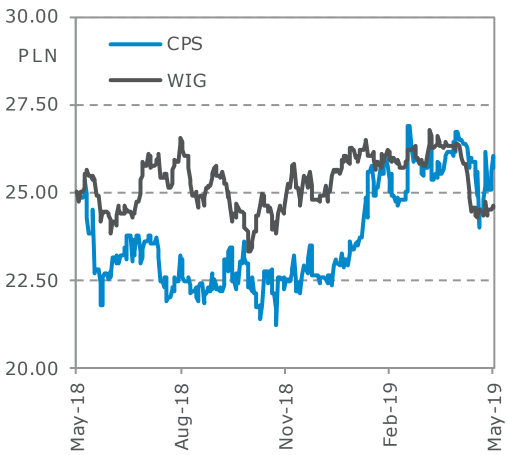
Ownership

Zygmunt Solorz-Żak	57.34%
Others	42.66%

Business 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 (3.9m users) and the commercial TV broadcaster Polsat which in Q3 2018 had an audience share of 24.4%. In 2014 Cyfrowy took over the mobile telecom Polkomtel, one of the leaders in Poland with coverage reaching 96% of Polish households (the company has >7.2 RGUs from mobile).

CPS vs. WIG



Company	Target Price new	Target Price old	Rating new	Rating old
Cyfrowy Polsat	24.60	23.20	reduce	hold

Company	Current Price	Target Price	Upside/ Downside
Cyfrowy Polsat	26.00	24.60	-5.4%

Forecast revision since last update	2019E	2020E	2021E
Revenue	-0.6%	-0.6%	-0.3%
EBITDA*	+9.7%	+8.8%	+9.5%
Net profit	+10.2%	+7.0%	+7.3%

*EBITDA estimates revision excluding IFRS16 effect: -1.6%/ -2.2%/-1.3% in FY2019-21

Analyst:

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl

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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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.

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

Rating	hold	accumulate
Rating date	2018-11-26	2018-06-15
Target price (PLN)	23.20	24.90
Price on rating day	22.50	22.76

Dom Maklerski mBanku
Senatorska 18
00-082 Warszawa
http://www.mbank.pl/

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.kliszcz@mbank.pl
energy, power generation

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
financials

Sales and Trading

Traders

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Tomasz Galanciak
+48 22 697 49 68
tomasz.galanciak@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 22 697 48 82
marzena.lempicka@mbank.pl

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl