

Thursday, September 12, 2019 | update

Play: buy (upgraded)

PLY PW; PLY.WA | Telecommunications, Poland

An Undeserved Sell-Off

Play's stock price dropped 19.4% over the last five days, resulting in a performance shortfall of 22.3pp vs. the WIG benchmark. What triggered the sell-off was the announcement of a 9% stake sale by institutional investors, underpinned by the press around the 5G auction. We consider this an undeserved beating given Play's vastly-improved earnings performance, with 2020 dividend yield possibly reaching 5.2% (compared to zero dividend offered by rival OPL PW and DY of 3.3% expected of CPS PW), and 2019 FCFE Yield estimated at 11.6%. This after what is shaping up to be a robust second half of 2019 marked by 8.2% growth in EBITDA. Poland's digitization ministry estimates the 3.4-3.8 GHz spectrum auction at PLN 1.0-1.5 billion, which should be interpreted as positive. Moreover the 700 MHz band is to be distributed wholesale by a single national operator, which rules out an expensive auction of the kind seen in Italy. Last but not least, Play generated strong results for Q2 2019, reflecting improving market conditions for mobile telecoms. All these reasons make Play an undervalued buying opportunity at the current level, in particular when compared to the listed competitor Cyfrowy Polsat. After updating our model to include second-quarter earnings, we see 22% upside potential to our new 9-month price target of PLN 33.10.

Play posts stellar second quarter

Play grew adjusted EBITDA by an impressive 17.1% in Q2 2019 compared to the same year-ago period. The number of contract customers maintained its slow upward climb, and postpaid ARPU increased by 1.8% Y/Y, its first rise in more than ten quarters, while subscriber acquisition costs dropped 12.8%. Margins from smartphone sales remained high in Q2 at 20.1% after rising by 1.7pp from a year ago. Play also reduced marketing expenses in Q2. The strong numbers seen in the second quarter reflect an improved market environment and show that a focus shift to customer retention is paying off. We expect further EBITDA growth in Q3 and Q4 2019.

3.4-3.8 GHz auction

Poland's telecoms regulator, UKE, decided to allocate 3.4-3.8 GHz spectrum via an auction. Given the current government's ambitious spending claims as part of a re-election bid, the auction might prove costly for telecoms. Details are still pending, and the key information to watch for is how many operators will be allowed to bid, and whether the spectrum will be allocated in four equal blocks. Assuming four MVNOs gain access, based on the ministry's expectations for PLN 1.0-1.5bn receipts, we have raised Play's 2020 frequency CAPEX forecast by PLN 200m.

Risks associated with 5G

Poland has shut out Huawei from competing for 5G infrastructure contracts, a move which generates two types of risk for Play: one is a possible rise in the costs of RAN equipment, and the other is a potential need for costly integration of 2-4G infrastructure with 5G. We have adjusted our future CAPEX estimate to reflect these risks, but we do not expect the 5G RAN expenditures to be much higher than originally thought.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	6,669.8	6,839.2	7,054.4	7,255.9	7,421.4
EBITDA	2,297.6	2,159.4	2,401.6	2,519.5	2,607.7
EBITDA margin	34.4%	31.6%	34.0%	34.7%	35.1%
EBIT	1,106.9	1,370.6	1,453.8	1,571.8	1,546.3
Net profit	387.3	744.5	826.4	898.9	894.8
P/E	17.8	9.3	8.3	7.7	7.7
P/CE	5.8	4.5	3.9	3.7	3.5
P/BV	-	-	26.6	8.6	5.2
EV/EBITDA (adj.)	5.9	6.3	5.7	5.7	5.3
DPS	0.00	2.57	1.45	1.42	1.42
DYield	0.0%	9.5%	5.3%	5.2%	5.2%

Current Price	PLN 27.16
Target Price	PLN 33.10
MCap	PLN 6.89bn
Free Float	PLN 3.43bn
ADTV (3M)	PLN 40.9m

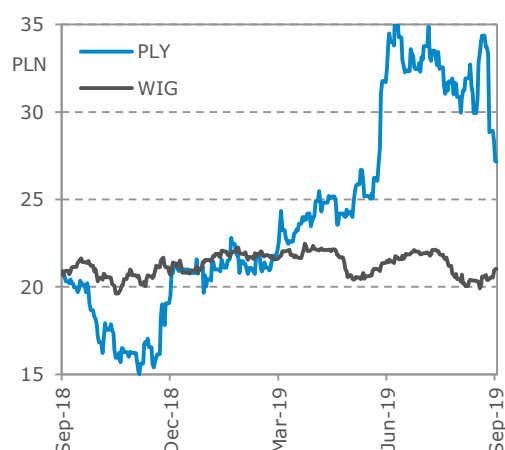
Ownership

Kenbourne Invest S.A.	25.46%
Tollerton Investments Ltd	24.69%
Investec Asset Mgmt	5.02%
Others	44.83%

Business Profile

Play is a leading Polish mobile operator, serving 15 million subscribers. 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 66.3% comprised of contract subscribers which account for 56.3% of annual revenue.

PLY vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Play	33.10	34.20	buy	hold

Company	Current Price	Target Price	Upside
Play	27.16	33.10	+21.9%

Forecast revision since last update	2019E	2020E	2021E
Revenue	+1.1%	+1.7%	+1.5%
EBITDA (adj.)	+1.9%	+1.7%	+1.4%
Net Profit	-5.2%	-6.9%	-8.3%

Analyst:

Paweł Szpigel
+48 22 438 24 06
pawel.szpigel@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

Recommendations of Dom Maklerski mBanku:

A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
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%
Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Dom Maklerski mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eacsp>) prepares analytical reports for the following companies: Cognor Holding, Comarch, VRG. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Dom Maklerski mBanku. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Cognor Holding, Comarch, VRG, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

The production of this recommendation was completed on September 12, 2019, 08:35 AM.
This recommendation was first disseminated on September 12, 2019, 08:35 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

This document is an extract from a recommendation produced by Dom Maklerski mBanku.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Dom Maklerski mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at:
http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Dom Maklerski mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.
Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.
Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.
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 Play in the 12 months prior to this publication

Rating	hold	accumulate	hold	buy	accumulate	accumulate	hold	buy	buy
Rating date	2019-09-05	2019-08-02	2019-07-03	2019-05-31	2019-05-09	2019-04-12	2019-02-04	2018-11-26	2018-10-17
Target price (PLN)	34.20	34.20	29.00	29.00	25.25	26.70	21.30	21.30	21.50
Price on rating day	33.34	31.22	33.34	25.08	24.42	24.08	22.80	16.54	17.14

Dom Maklerski mBanku

Senatorska 18
00-082 Warszawa
<http://www.mbank.pl/>

Research Department

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

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

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

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

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

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

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

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

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

Sales and Trading

Traders

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

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

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

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

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

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

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

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

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

Sales, Foreign Markets

Joanna Łukasik
+48 22 697 48 82
joanna.lukasik@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