

Wednesday, April 01, 2020 | update

## Cyfrowy Polsat: hold (reiterated)

CPS PW; CPS.WA | TMT, Poland

### High FCFE, Sound Dividends

We revise our outlook on Cyfrowy Polsat to account for the expected consequences thus far of the current epidemic. When it comes to the telecom business, the key risks we see as facing the Group at the moment include increased network traffic, potential customer losses, weaker sales of electronics due to low demand exacerbated by quarantine store closures, and reduced use of international roaming. As for the more volatile media business, the main risk here is the likely fall from Q2 2020 in advertising expenditures as businesses cut back costs amid an economic crisis. Our base-case scenario for Cyfrowy under these circumstances assumes a 4.5% decline in EBITDA ex. IFRS16 in 2020 – a forecast which is subject to change as the situation develops and depending on the duration of the epidemic. After updating our models, we set our new target price for CPS at PLN 24.10, and we recommend holding the stock despite currently having an overweight view on the telecoms sector. Cyfrowy offers high FCFE Yield (8.5% in 2020 not including frequencies, over 10% in 2021) and pays healthy dividends (DivYield'20 = 3.9%) – a treat at a time of low interest rates. On the other hand, the Company currently trades at a premium to its local telecom peers at 6.9x EV/EBITDA vs. 6.1x Play and 5.2x Orange Polska. An uncertain advertising outlook is no doubt a source of downside risk for Cyfrowy, however in terms of earnings impacts keep in mind that ads account for less than 15% of annual EBITDA.

### The Bid on Interia

In mid-March, Cyfrowy announced it had made a preliminary takeover bid on the Web portal Interia.pl – a move which seems counterintuitive at a time when most businesses stash as part of liquidity management, but which we do not see as markedly increasing credit risk. In fact, we consider Interia as a smart investment which can generate valuable synergy for Cyfrowy. As one of Poland's biggest providers of entertainment content and news, through Interia Cyfrowy can reach a new target audience and develop a new channel for advertising engagement. In the future, we expect to see more M&A activity from Cyfrowy as it ventures into the e-commerce segment (a similar strategy to that employed by ProSieben).

### An Advertising Crash Seems Inevitable

The ad industry is showing its cyclical nature as companies put marketing campaigns on hold for a post-coronavirus world. It would be premature to draw any conclusions at this stage about the resulting slump in expenditures. What we can say with certainty is that, historically, advertising has shown a close correlation with economic growth, and that during the 2008/09 crisis expenditures fell at a rate of more than 10% a year. This year, we are anticipating a more severe downturn as we look at closing factories, lockdown restrictions on consumers and businesses, and low public acceptance for commercial brand campaigns in the midst of an epidemic. After consulting experts, given the latest predictions of Poland's economic contraction at a rate of 0.3pp in 2020, our prognosis is for a double-digit fall in Polish advertising expenditures this year.

(PLN m)	2018	2019	2020E	2021E*	2022E
Revenue	10,686	11,676	11,376	11,661	12,002
EBITDA	3,698*	4,197	4,026	4,234	4,353
EBITDA margin	34.6%*	35.9%	35.4%	36.3%	36.3%
EBIT	1,727	1,967	1,850	2,156	2,365
Net income	834	1,101	1,221	1,490	1,649
P/E	18.3	13.8	12.5	10.2	9.2
P/CE	5.4	5.3	5.2	4.9	4.8
P/BV	1.2	1.1	1.1	1.0	0.9
EV/EBITDA	6.8	6.7	6.9	6.4	7.0
DPS	0.00	0.93	0.93	0.93	1.27
DYield	0.0%	3.9%	3.9%	3.9%	5.3%

\* IAS 17 figures

Current Price	PLN 23.82
Target Price	PLN 24.10
MCap	PLN 15.2bn
Free Float	PLN 6.5bn
ADTV (3M)	PLN 31.9m

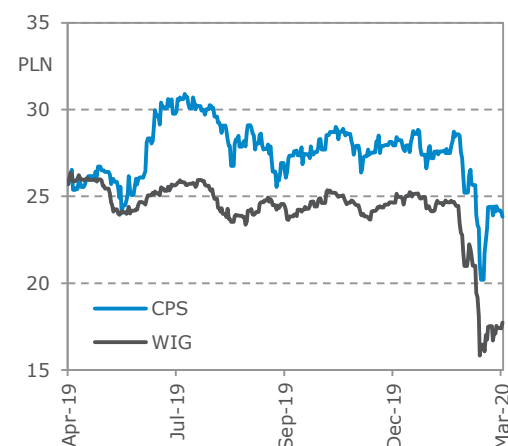
### Ownership

Zygmunt Solorz-Żak	56.95%
Others	43.05%

### 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 2019 had an audience share of 25.1%. In 2014 Cyfrowy took over the mobile telecom Polkomtel, one of the leaders in Poland with coverage reaching 96% of Polish households.

### CPS vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Cyfrowy Polsat	24.10	26.10	hold	hold

Company	Current Price	Target Price	Upside
Cyfrowy Polsat	23.82	24.10	+1.2%

Forecast Update	2020E	2021E	2022E
Revenue	-4.5%	-3.8%	-2.6%
EBITDA	-5.3%	-2.7%	-1.5%
Net profit	-7.6%	-0.6%	+1.4%

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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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**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%  
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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:**
**Cyfrowy Polsat**

Rating	hold	reduce	reduce
Rating date	2020-03-04	2019-11-14	2019-05-31
Target price (PLN)	26.10	26.10	24.15
Price on rating day	26.24	28.86	26.00

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