

IT  
Poland

<b>Current price</b>	<b>PLN 15.35</b>
<b>Target price</b>	<b>PLN 14.80</b>
Market cap	PLN 5.35bn
Free float	PLN 2.75bn
Avg daily trading volume (3M)	PLN 17.46m

#### Equity Ownership/Voting Rights

Polaris Finance B.V. 48.50%/63.64%

Others 51.50%/36.36%

#### Sector Outlook

The pay TV market is close to saturation point. Digital and cable TV subscribers combined tally up to 10.8 million, representing 74% of all Polish households, much more than the EU average.

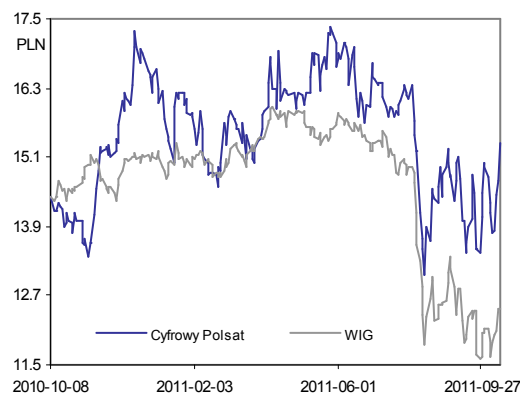
#### Company Profile

Cyfrowy Polsat is Poland's leading digital-satellite TV platform operator with a subscriber base of approximately 3.5 million as of 30 June 2011. In addition to providing pay-TV services, the company also offers broadband internet and owns Poland's second-largest private TV broadcaster.

#### Important dates

14.11.2011 - Q3 2011 report

#### CPS vs. WIG



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# Cyfrowy Polsat

CPS.PW; CPSM.WA

# Hold

(Reiterated)

## Growth Through TV and Internet

With the acquisition of TV Polsat, Cyfrowy Polsat has become more sensitive to economic fluctuations (the TV business is procyclical, plus, the acquisition was funded with debt). By expanding the reach of its TV channels (through the inclusion of special-interest channels into the program packages offered through DTH services Cyfra Plus, 'n,' and the cable provider Multimedia), Cyfrowy Polsat stands to achieve growth in the broadcasting segment in the next three quarters. Thereafter, however, the television market is expected to reach equilibrium, forcing the company to step up the battle for market share, with implications for further profit growth. As for retail services, with the pay-TV market just about reaching saturation point, the main growth driver in the future will be broadband internet supported by the high-speed LTE technology. LTE networks have limited reach at the moment, but we believe Cyfrowy Polsat will be able to acquire 85,000 users by the end of the year. On 2012 multiples, CPL is trading at a 30% premium in pay TV and a 23% premium in TV broadcasting compared to sector peers, but displays a 12% discount to its Polish rival TVN. We are reiterating a hold rating on CPL.

#### Q3 2011 estimates

Cyfrowy Polsat's 2011 third-quarter results will be heavily influenced by foreign exchange volatility. A depreciated zloty will drive up the costs incurred in the segment of retail services which, however, will be partly offset by higher revenues generated from broadcasting. We estimate the Q3 2011 EBITDA from the pay TV and internet bundles at PLN 120.2m, and we expect the broadcasting EBITDA to come in at PLN 60.1m, making for a quarterly total of PLN 144.4m. Because of high FX/ losses (PLN 148.6m), Cyfrowy Polsat is set to report a third-quarter net loss of PLN 45.2m.

#### LTE will accelerate broadband growth

Cyfrowy Polsat launched a commercial LTE service on 30 August 2011. With each plan, the company offers a choice between LTE and HSPA+ access depending on which is has the most benefits for subscribers in different locations. LTE can be used to accelerate customer acquisition, although at the moment it has a limited reach, operating at about 1300 towns and cities (equivalent to approximately 60% of the Polish population) through 500 base stations.

(PLN m)	2009	2010	2011F	2012F	2013F
Revenue	1 266.1	1 482.5	2 380.8	2 842.4	2 952.3
EBITDA	318.0	406.9	698.4	865.9	906.3
EBITDA margin	25.1%	27.5%	29.3%	30.5%	30.7%
EBIT	276.1	325.8	568.2	692.4	713.4
Net profit	230.3	258.5	323.7	400.2	430.1
DPS	0.8	0.6	0.0	0.5	0.6
P/E	17.9	15.9	16.5	13.4	12.4
P/CE	15.1	12.7	11.7	9.3	8.6
P/BV	12.5	9.6	2.8	2.5	2.3
EV/EBITDA	12.8	10.1	11.1	8.7	8.1
DYield	4.9%	3.7%	0.0%	3.0%	3.7%

## Financial Standing

### 2011 Q2 results

Cyfrowy Polsat's (CPL) 2011 second-quarter results came in line with our forecasts and slightly ahead of consensus estimates. The Television segment did particularly well, generating EBIT of PLN 88.0m and EBITDA of PLN 97.3m (vs. our respective forecasts of PLN 79.1m and PLN 87.5m) during the period of consolidation from April 20th to June 30th. The quarterly EBITDA amounted to PLN 115.0m (we expected PLN 117.0m).

By operating segment, Retail (comprising pay TV, broadband Internet, and mobile telephony services) generated EBIT of PLN 85.8m, about PLN 10m lower than the Q1 figure and short by the same amount relative to our Q2 estimate which was based on lower assumed set-top-box and modem depreciation expenses. The segmental EBITDA missed our estimate by PLN 2.0m at PLN 121.0m.

The consolidated Q2 2011 revenue amounted to PLN 628.4m, 0.5% less than forecasted, including PLN 208.6m from sales of sponsorship and advertising airtime and PLN 385.8m provided by subscribers (marking a q/q decline by PLN 2.3m). Costs included noticeably higher D&A expenses, signal transmission costs, and payroll costs which, however, are fully attributable to CPL's new TV business. There was a considerable decrease from PLN 20.2m in Q1 to PLN 13.1m in impairment losses on amounts receivable. All told, the Q2 2011 EBIT came in at PLN 173.5m (we forecasted PLN 172.0m).

Financing expenses came in line with predictions at PLN 82.8m, and they included increased interest expenses incurred on the debt funding the TV Polsat acquisition in the amount of PLN 64.7m (a major portion of this amount, about PLN 25m, was incurred on a bridge loan taken out and paid back during the quarter). Financing expenses also included PLN 22.6m in F/X losses.

A high effective tax rate of 22.6% meant that a bottom-line profit of PLN 70.2m fell slightly short of our PLN 71.5m estimate.

### Reported vs. forecasted Q2 2011 results

(PLN m)	2Q2011	2Q2010	change	2Q2011F	difference	Consensus	difference	2011F	2010	change
Revenue	628.4	363.6	72.8%	614.2	2.3%	631.5	-0.5%	2 380.8	1 482.5	60.6%
EBITDA	218.2	103.6	110.7%	171.0	27.6%	202.0	8.0%	698.4	406.9	71.6%
margin	34.7%	28.5%	-	27.8%		32.0%		30.1%	25.9%	-
EBIT	173.5	81.5	112.8%	135.0	28.5%	164.0	5.8%	568.2	325.8	74.4%
Pre-tax profit	90.7	84.3	7.5%	-42.9	-311.5%	-		399.6	321.3	24.4%
Net profit	70.2	68.4	2.6%	-58.7	-219.7%	66.6	5.4%	323.7	258.5	25.2%

Source: Cyfrowy Polsat, F – forecasts by BRE Bank Securities; Consensus estimates by PAP

As predicted, Cyfrowy Polsat's TV subscriber base expanded by 3.1 thousand users relative to Q1 as a result of a 19.4 thousand defections from the "family" channel package combined with an addition of 22.5 thousand new "mini" package users.

The number of broadband subscribers also increased by 7 thousand to 43 thousand, and MVNO user numbers reached 130 thousand after 10 thousand additions.

A growing subscriber base led to ARPU growth from PLN 10.9 to PLN 11.6 (+6.4%) for the "mini" TV packages, and from PLN 41.9 to PLN 43.2 (+3.1%) for the "family" packages. The quarter-on-quarter growth in the overall TV ARPU amounted to 2.0% (rising from PLN 35.6 to PLN 36.3).

## TV Segment

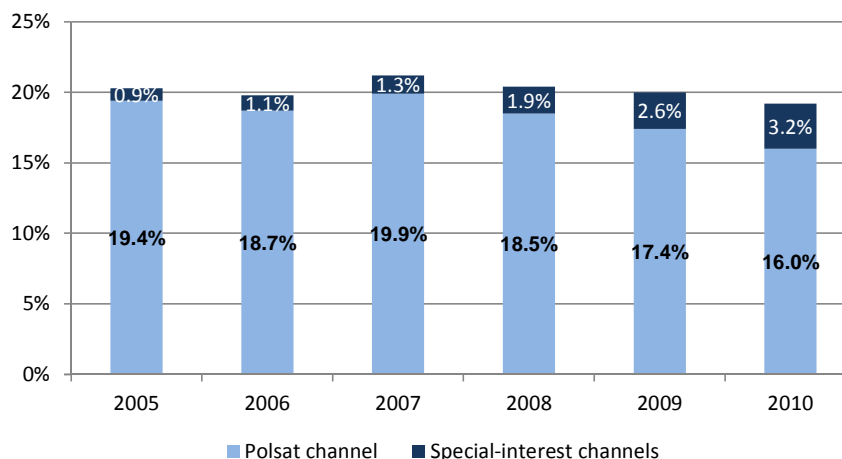
### Acquisition

The acquisition of TV Polsat earlier this year resulted in the creation of a new operating segment of TV Broadcasting within Cyfrowy Polsat. Cyfrowy Polsat paid PLN 3.75bn for TV Polsat, of which PLN 2.6bn was funded with debt and PLN 1.15bn was paid from the proceeds raised through an issue of 80 million shares.

TV Polsat is the second largest private television network in Poland, comprising the flagship channel "Polsat" and eleven special-interest channels: Polsat2 (general entertainment), Polsat News (news), TV Biznes (business), Polsat Play (men's interest), Polsat Cafe (women's interest), Polsat Film (films), Jim Jam (children's channel), and the sports channels Polsat

Sport, Polsat Sport Ekstra, Polsat Sport News, and Polsat Futbol. In 2010, the basic Polsat channel had a 16% audience share in the target 16-49 demographic and garnered 3.2% viewership in the special-interest channels, adding up to a 19.2% total audience share (vs. 20.0% in 2009). TV Polsat's annual 2010 EBITDA amounted to PLN 314m. Cyfrowy Polsat started to consolidate TV Polsat as of April 20th, 2011.

### TV Polsat's audience share in target 16-49 demo



Source: AGB Nielsen Media Research

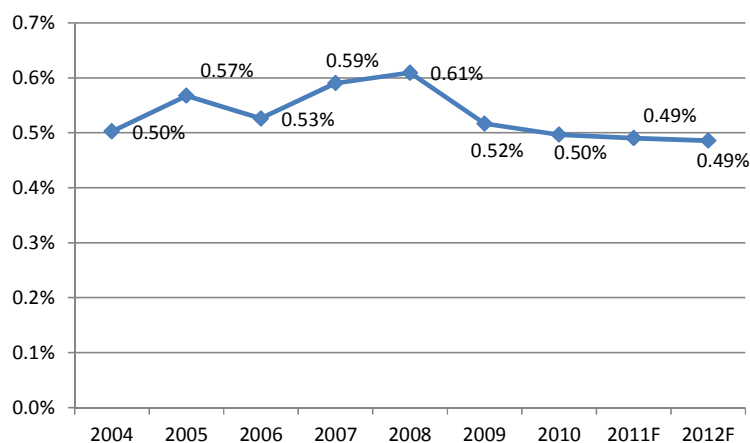
### Growth Prospects

The acquisition of TV Polsat coincided with a considerable spike in Cyfrowy Polsat's reach achieved through the addition of its channels to the television packages offered by the DTH providers Cyfra Plus and 'n,' and the cable provider Multimedia. These three companies combined reach 3.1 million Polish households, meaning that the reach of Cyfrowy Polsat's special-interest channels (Polsat Play, Polsat Cafe, Polsat Sport, Polsat Sport Extra, Polsat Film, Polsat News) increased from 3.6 million homes in H1 2010 to 5.1 million in H1 2011.

The benefits of the expanded reach are twofold: Firstly, Cyfrowy Polsat is generating higher revenues from channel license sales to pay-TV providers. These revenues increased from PLN 31m to PLN 39m in the second quarter alone, adding fully to the period's EBITDA in the absence of additional costs.

Secondly, wider reach means bigger viewership for the special-interest channels, translating into more interest from advertisers and higher advertising revenues which, in H1 2011, increased 7.9% from PLN 416m to PLN 449m. The overall growth in the advertising market observed in the period (with revenues rising 4.1% from PLN 1926m to PLN 2005m in H1 2011) was responsible for only a fraction of Cyfrowy Polsat's topline growth. The company's share in the advertising market increased from 21.6% to 22.4% in H1 while other players lost market share (TVN saw a decline from 31.8% to 31.1%).

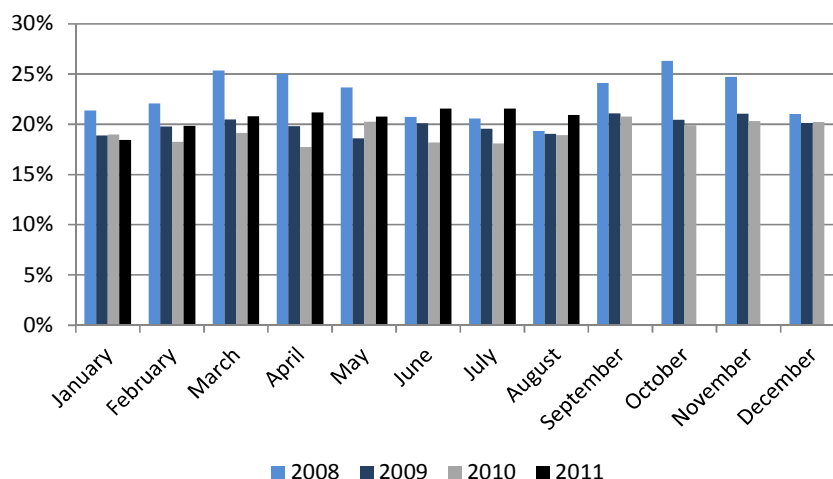
### Advertising market contributions to GDP



Source: Starlink, GUS

The H2 2011 outlook for Cyfrowy Polsat's Television segment is equally robust. We expect the company's full-year license revenue to be about 30% higher than in 2010 at an estimated PLN 154.2m. Fueled by a pickup in advertising expenses (expected to rise 5% this year) and a wider reach, the segment's annual advertising revenue will increase by an estimated 7.7% to PLN 921.5m, and its market share will rise by 0.5ppt, without having to incur much additional costs on programming aside from soccer broadcasting rights. Annual programming expenses are expected to reach PLN 548.1m in 2011. The 2011 EBITDA will be 18% higher than the year-ago figure at PLN 368.8m.

### TV Polsat's all-day viewership



Source: Nielsen Audience Measurement

After 2011, the positive effects of the TV Polsat acquisition will gradually dissipate. The broadcaster was losing audience share (see the diagram above) before expanding the distribution of its channels this spring. By May 2012, the effects of the expanded distribution will wear off, and the market shares of the main players will stabilize, creating more room for expansion for small special-interest channels which have successfully been stealing audiences and ad revenues from TV Polsat and the other major players, TVN i TVP. To mitigate market share losses, TV Polsat will have to increase expenses on programming content.

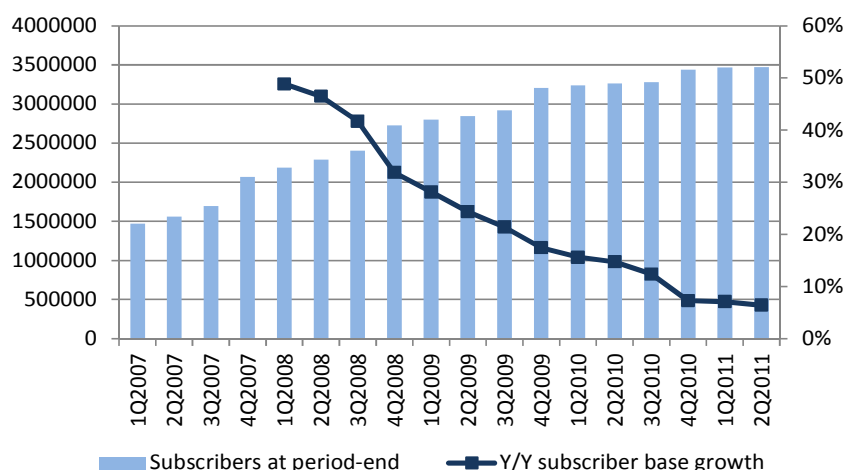
As a consequence, in spite of the expected acceleration to 7% in next year's ad spend growth, 2012 will be a weaker year for Cyfrowy Polsat's television business in terms of revenues (which are expected to increase 5.5%) as well as EBITDA. As for next year's programming costs, they will be shaped by two opposing factors. On the one hand, Cyfrowy Polsat will incur lower license costs next year after the expiry of the Champions League and the Europa League broadcasting license agreement which the company is not planning to renew. On the other hand, Cyfrowy Polsat will be forced to spend more on content to prevent viewer churn. We anticipate an PLN 11m increase in programming expenditure, and an increase in 2012 EBITDA to PLN 392.2m.

## Retail Segment

### Pay TV nears saturation

Cyfrowy Polsat's pay-TV subscriber base amounted to 3.47 million as of 30 June 2011 after a YTD increase by 36.5 thousand users. Family package users decreased by 14 thousand, while mini package users increased by 60.5 thousand. Overall, the total number of digital TV subscribers in Poland reached 5.85 million, representing 41.8% of all households. Combined with 4.9 million cable subscribers, pay TV reaches about 74.0% of Polish homes (although some households have more than one set-top box, sometimes from different providers) – a ratio second only to those recorded in the Netherlands, Belgium, and Scandinavian countries, and higher even than Germany's. Other European countries have lower ratios because of delays in the launch of digital terrestrial TV. The existing pay TV subscriber base and the rate at which it is increasing indicates that the market is nearing saturation point. Cyfrowy Polsat estimates the leftover growth potential at 1 million households. Considering the DTTV switchover scheduled for mid-2013, however, we would put this number at closer to 0.5 million homes.

### Cyfrowy Polsat's pay TV subscriber base



Source: Cyfrowy Polsat

### DDTV threatens "mini" package

The analog-to-digital television switch scheduled for 31 July 2013 is going to free up many frequencies. One frequency band currently occupied by a single analog channel will be able to house seven digital SD channels or 2-3 HD channels after the switch. As a result, the Polish market will open up to new players offering a wider choice of free-to-air channels. Digital terrestrial television (DDTV) will be competing directly with pay television by offering basic TV channels for free to households that buy an MPEG4 decoder or a set-top-box featuring such a decoder. Today, a basic decode device can be had for about 100 zlotys.

From the standpoint of Cyfrowy Polsat, DDTV will be most harmful to the business generated by the mini HD package which can only offer as "extra" relative to the future basic DDTV package the special-interest channels of Polsat (Polsat2, Polsat Jim Jam, Polsat Film, Polsat News, Polsat Sport, Polsat Sport Extra, Polsat Café, Polsat Play). To be more competitive and make its offer stand out, Cyfrowy Polsat unified its old "mini" and "miniMax" packages at an averaged price and added the Polsat channels listed above to create a new "mini HD" bundle.

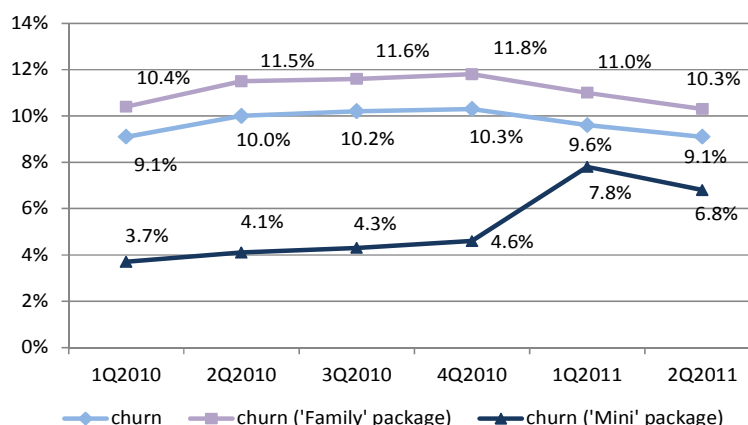
### Price comparison: Cyfrowy Polsat mini HD vs. DDTV package

	DDTV	Mini HD
Discounted subscription fee		339.81
Activation fee	100	49
Total	100.00	388.81

Source: BRE Bank Securities

A mini HD subscriber pays a flat monthly fee of PLN 14.99 plus a one-time activation fee of PLN 49.0. The total fees under a two-year subscription agreement are about PLN 289 lower than in case of DDTV, and the difference will be increasing as MPEG4 decode devices become cheaper. This gives rise to risk of mini HD subscriber churn, especially among those users who purchased digital television because it offers better quality than analog television. This means that, in addition to a richer channel lineup, Cyfrowy Polsat will probably have to make the mini HD package more attractive to subscribers in other ways as well, including through fee cuts. Obviously, this will result in lower earnings.

### Churn by type of channel package



Source: Cyfrowy Polsat

### Stable churn achieved with free STPs

Cyfrowy Polsat managed to stem subscriber churn in H1 2011 to 9.1% from 10.3% at year-end 2010. This was achieved through incentives in the form of set-top box replacements. By the end of the year, the company will have installed 1 million new STPs at new and existing subscriber households.

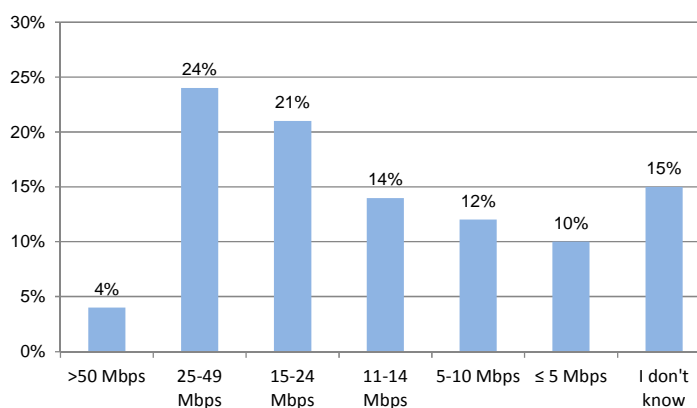
As a result, the average age of the devices recognized on its balance sheet will decrease. To date, Cyfrowy Polsat made money on devices that were in use long. Going forward, even though the STP rental periods will still be longer than the depreciation periods, the positive effects on profits and cash flows will be weaker. Summing up, the slower churn will be offset by the increased STP expenses.

### Broadband

As the pay TV market reaches saturation, the main driver of the future earnings of the Retail business will be broadband Internet. The number of Cyfrowy Polsat's broadband subscribers increased from 43 thousand at 30 June 2011 to 50 thousand at the end of August. User acquisition has been slow so far, due partly to the initially limited network reach (ca. 40% of Polish population). With the current network, reach has increased to nearly 60% of households through 500 base stations. Future plans for network expansion are unknown, and we assume the limited reach will continue to be an obstacle for Cyfrowy Polsat's broadband expansion in the future.

On a more positive note, future user acquisition will be supported by the launch on a commercial scale of Long Time Evolution (LTE) technology offering high-speed data services. The Multiple Input Multiple Output (MIMO) technology offered to date offers maximum download speeds of 28 Mbps. With LTE, subscribers get 100 Mbps down speed. Cyfrowy Polsat is planning to offer its users a choice between these two technologies with each service bundle. We believe LTE will contribute to accelerated subscriber acquisition by Cyfrowy Polsat, and we expect the broadband subscriber base to increase to 85 thousand by the end of the year.

### Maximum speeds recorded during user LTE tests



Source: Cyfrowy Polsat

### Q3 2011 estimates

Cyfrowy Polsat's 2011 third-quarter results will be heavily influenced by foreign exchange volatility. The Retail segment particularly will be affected by higher costs of program licenses, expected to increase 5.9% q/q to PLN 109.7m. At the same time, there will be a seasonal decrease in impairment losses on accounts receivable to an estimated PLN 7.0m from PLN 13.1m in Q2 2011. As a result, the Q3 2011 EBITDA of the Retail segment will approximate PLN 120.2m, PLN 1m less than in the preceding quarter.

The TV segment will be hurt by seasonally the weakest period in the advertising industry. However, thanks to F/X trends and increasing viewership, its EBITDA will come in at an estimated PLN 60.1m.

Cyfrowy Polsat will incur a loss of about PLN 148.6m incurred on foreign currency debt revaluations, and book it under financing expenses in a total estimated amount of PLN 200.2m. With the deferred tax asset at roughly PLN 10.6m, the Q3 2011 net loss will amount to PLN 45.2m.

### Q3 2011 earnings forecast

(PLN m)	3Q2011F	3Q2010	change	2011F	2010	change
Revenue	619.8	363.6	70.5%	2 380.8	1 482.5	60.6%
EBITDA	180.4	103.6	74.2%	698.4	406.9	71.6%
margin	29.1%	28.5%	-	29.3%	27.5%	-
EBIT	144.4	81.5	77.2%	568.2	325.8	74.4%
Pre-tax income	-55.8	84.3	-166.1%	399.6	321.3	24.4%
Net income	-45.2	68.4	-166.0%	323.7	258.5	25.2%

Source: Forecasts by BRE Bank Securities

## Valuation

### Valuation Summary

	PLN m	Weight	9M Target Price
DCF Analysis	5 206.7	50%	
Relative Valuation	4 348.9	50%	
incl.			
based on P/E	4 865.6	50%	
based on EV/FCF	3 832.1	50%	
<b>Average</b>	<b>4 777.8</b>		<b>5 172.0</b>
Value per share			14.8

### DCF Model Assumptions

1. The forecast period extends from FY2011 through FY2020.
2. The risk-free rate is 5.9% (10Y T-bond yield).
3. Net debt is as at year-end 2010.
4. We assume Cyfrowy Polsat will be paying out 66% of annual earnings every year in the forecast period.
5. FCF growth CAGR after the forecast period is 2.0%.



## Relative Valuation

We compared Cyfrowy Polsat with Polish and international pay-TV providers (group one), and TV networks (group two) based on the average of the medians of their estimated EV/FCF and P/E multiples. 2011 earnings figures are annualized to include full consolidation of TV Polsat.

### Estimates of P/E and EV/FCF multiples for Polish and International pay-TV providers and TV networks

	Price	EV/EBITDA			P/E		
		2011F	2012F	2013F	2011F	2012F	2013F
Comcast Corp		6.9	6.5	6.4	16.3	13.7	11.8
BSKYB		11.6	10.1	9.3	21.2	17.8	15.5
Cablevision Systems		7.9	7.5	7.3	19.0	14.9	11.9
Multimedia Polska SA		7.0	6.7	6.6	14.0	12.0	10.9
Shaw Communications		7.2	6.8	6.3	14.3	12.6	10.7
Canal Plus		6.5	6.4	-	17.4	16.8	-
Cogeco INC		5.8	5.4	5.1	16.0	13.8	11.7
Liberty Global INC		7.1	6.6	6.3	26.9	21.2	13.7
Maximum		11.6	10.1	9.3	21.2	17.8	15.5
Minimum		5.8	5.4	5.1	14.0	12.0	10.7
<b>Median</b>		<b>7.1</b>	<b>6.7</b>	<b>6.4</b>	<b>16.8</b>	<b>13.8</b>	<b>11.7</b>
Cyfrowy Polsat	15.4	<b>11.1</b>	<b>8.7</b>	<b>8.1</b>	<b>16.5</b>	<b>13.4</b>	<b>12.4</b>
premium / discount		56.8%	30.6%	26.6%	-1.7%	-3.1%	5.9%

	Price	EV/EBITDA			P/E		
		2011P	2012F	2013F	2011F	2012F	2013F
CME		10.0	7.7	6.6	-	19.8	7.3
CTC Media Inc		4.3	3.8	3.3	7.8	6.7	5.9
RTL Group		7.6	7.5	6.8	13.3	12.6	12.0
Mediaset					8.0	8.0	7.3
ProSiebenSat 1		7.1	7.3	7.1	6.5	6.4	6.0
ITV plc		5.2	5.0	4.7	8.1	7.5	7.0
Gestevisión Telecinco		8.0	7.8	6.7	9.4	9.1	7.6
TF1		4.6	4.5	4.2	8.8	8.6	7.8
Antena 3 de Television		6.7	6.7	6.2	8.5	8.4	7.7
Metropole Television		3.8	3.8	3.8	9.2	9.3	8.8
TVN		11.0	9.3	8.1	41.3	23.6	16.3
Maximum		11.0	9.3	8.1	41.3	23.6	16.3
Minimum		3.8	3.8	3.3	6.5	6.4	5.9
<b>Median</b>		<b>6.9</b>	<b>7.0</b>	<b>6.4</b>	<b>8.7</b>	<b>8.6</b>	<b>7.6</b>
Cyfrowy Polsat	15.4	<b>11.1</b>	<b>8.7</b>	<b>8.1</b>	<b>16.5</b>	<b>13.4</b>	<b>12.4</b>
premium / discount		59.9%	23.4%	26.3%	90.7%	55.5%	63.5%



## DCF Valuation Model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2020+
<b>Revenues</b>	<b>2 380.8</b>	<b>2 842.4</b>	<b>2 952.3</b>	<b>3 099.0</b>	<b>3 255.0</b>	<b>3 388.2</b>	<b>3 515.6</b>	<b>3 635.1</b>	<b>3 744.9</b>	<b>3 834.3</b>	
Change	60.6%	19.4%	3.9%	5.0%	5.0%	4.1%	3.8%	3.4%	3.0%	2.4%	
<b>EBITDA</b>	<b>698.4</b>	<b>865.9</b>	<b>906.3</b>	<b>962.8</b>	<b>1 006.5</b>	<b>1 037.6</b>	<b>1 065.9</b>	<b>1 091.4</b>	<b>1 115.6</b>	<b>1 128.4</b>	
EBITDA margin	29.3%	30.5%	30.7%	31.1%	30.9%	30.6%	30.3%	30.0%	29.8%	29.4%	
Amortization and depreciation	130.2	173.5	192.8	200.2	196.4	190.6	185.2	187.1	191.3	194.8	
<b>EBIT</b>	<b>568.2</b>	<b>692.4</b>	<b>713.4</b>	<b>762.5</b>	<b>810.1</b>	<b>847.1</b>	<b>880.7</b>	<b>904.3</b>	<b>924.3</b>	<b>933.6</b>	
EBIT margin	23.9%	24.4%	24.2%	24.6%	24.9%	25.0%	25.1%	24.9%	24.7%	24.3%	
Tax rate on EBIT	107.9	131.6	135.5	144.9	153.9	160.9	167.3	171.8	175.6	177.4	
<b>NOPLAT</b>	<b>460.2</b>	<b>560.8</b>	<b>577.9</b>	<b>617.7</b>	<b>656.2</b>	<b>686.1</b>	<b>713.4</b>	<b>732.5</b>	<b>748.7</b>	<b>756.2</b>	
CAPEX	-3 847.1	-98.6	-87.0	-77.6	-73.4	-68.8	-64.2	-66.4	-68.4	-96.8	
Working capital	-159.7	-104.7	-103.6	-84.6	-97.5	-98.2	-89.0	-102.6	-102.5	-102.9	
Other	1 150.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>FCF</b>	<b>-2266.4</b>	<b>531.1</b>	<b>580.1</b>	<b>655.6</b>	<b>681.7</b>	<b>709.7</b>	<b>745.3</b>	<b>750.6</b>	<b>769.1</b>	<b>751.3</b>	<b>766.3</b>
WACC	9.2%	9.3%	9.4%	9.5%	9.7%	9.9%	10.1%	10.3%	10.9%	10.9%	10.9%
discount factor	97.8%	89.5%	81.9%	74.7%	68.1%	62.0%	56.3%	51.1%	46.1%	41.5%	37.5%
PV FCF	-2217.3	475.5	474.8	489.9	464.5	440.2	420.0	383.5	354.3	312.1	318.4
<b>WACC</b>	<b>9.2%</b>	<b>9.3%</b>	<b>9.4%</b>	<b>9.5%</b>	<b>9.7%</b>	<b>9.9%</b>	<b>10.1%</b>	<b>10.3%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>
Cost of debt	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
Risk-free rate	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	0.0%
Net debt / EV	0.0%	32.8%	30.8%	28.4%	25.8%	22.9%	19.6%	15.7%	11.6%	0.0%	0.0%
Cost of Equity	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast horizon	2.0%	Sensitivity Analysis					
Terminal value	8 610.4	FCF growth in perpetuity					
Present value of the terminal value (PV TV)	3 577.0		0.0%	1.0%	2.0%	3.0%	4.0%
Discounted FCF in the forecast horizon	1 597.5	WACC +1.0pp	12.1	12.8	13.7	14.7	16.0
Enterprise value (EV)	5 174.5	WACC +0.5pp	13.0	13.8	14.8	16.0	17.5
Net debt	-8.0	WACC	14.1	15.0	16.1	17.5	19.3
Other non-operating assets	0.0	WACC -0.5pp	15.2	16.2	17.5	19.2	21.4
Minority interests	0.0	WACC -1.0pp	16.4	17.6	19.1	21.1	23.8
Equity value	5 182.5						
Number of shares (millions)	348.4						
Equity value per share (PLN)	14.9						
Cost of equity (9M)	8.2%						
Target Price	16.1						
EV/EBITDA('11) for the target price	8.0						
P/E('11) for the target price	17.3						
TV to EV	69%						

## Income Statement

(PLN m)	2009	2010	2011F	2012F	2013F	2014F	2015F
<b>Revenue</b>	<b>1 266.1</b>	<b>1 482.5</b>	<b>2 380.8</b>	<b>2 842.4</b>	<b>2 952.3</b>	<b>3 099.0</b>	<b>3 255.0</b>
<i>change</i>	11.4%	17.1%	7.3%	3.7%	3.0%	3.9%	3.1%
Subscriptions	1 189.8	1 393.5	1 506.5	1 571.4	1 617.8	1 680.7	1 732.7
Other	76.3	89.0	874.3	1 271.0	1 334.6	1 418.3	1 522.3
<b>COGS</b>	<b>978.4</b>	<b>1 122.3</b>	<b>1 780.0</b>	<b>2 117.9</b>	<b>2 205.4</b>	<b>2 301.8</b>	<b>2 408.8</b>
D&A expenses	41.9	81.2	130.2	173.5	192.8	200.2	196.4
Program licenses	354.4	392.0	422.3	428.8	432.3	435.4	451.1
In-house productions	0.0	0.0	262.9	396.3	415.2	443.2	481.0
Amortized costs of third-party licenses	0.0	0.0	129.4	182.0	191.6	205.2	222.7
Signal transmission	82.6	79.9	112.5	125.5	126.8	128.1	130.7
Distribution & marketing	262.3	297.3	347.7	394.4	411.0	433.3	452.9
Payroll	72.8	88.3	149.8	184.9	196.2	209.1	222.4
Cost of set-top boxes	89.7	59.5	49.0	30.4	30.7	30.1	27.3
Cost of electronic equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	74.6	124.0	176.2	202.1	208.8	217.2	224.3
Other operating income	12.5	14.0	6.2	6.4	6.5	6.6	6.7
Other operating expenses	24.3	48.4	38.9	38.5	40.1	41.3	42.8
<b>EBIT</b>	<b>276.1</b>	<b>325.8</b>	<b>568.2</b>	<b>692.4</b>	<b>713.4</b>	<b>762.5</b>	<b>810.1</b>
<i>change</i>	-14.9%	18.0%	74.4%	21.9%	3.0%	6.9%	6.2%
<i>EBIT margin</i>	21.8%	22.0%	23.9%	24.4%	24.2%	24.6%	24.9%
Financing income/expenses	8.3	-4.5	-168.5	-198.3	-182.4	-158.9	-135.1
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax income</b>	<b>284.3</b>	<b>321.3</b>	<b>399.6</b>	<b>494.1</b>	<b>531.0</b>	<b>603.6</b>	<b>0.0</b>
Tax	54.0	62.8	75.9	93.9	100.9	114.7	128.2
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>230.3</b>	<b>258.5</b>	<b>323.7</b>	<b>400.2</b>	<b>430.1</b>	<b>488.9</b>	<b>546.7</b>
<i>change</i>	-14.6%	12.2%	25.2%	23.6%	7.5%	13.7%	11.8%
<i>margin</i>	18.2%	17.4%	13.6%	14.1%	14.6%	15.8%	16.8%
D&A expenses	41.9	81.2	130.2	173.5	192.8	200.2	196.4
<b>EBITDA</b>	<b>318.0</b>	<b>406.9</b>	<b>698.4</b>	<b>865.9</b>	<b>906.3</b>	<b>962.8</b>	<b>1 006.5</b>
<i>change</i>	-8.6%	28.0%	71.6%	24.0%	4.7%	6.2%	4.5%
<i>EBITDA margin</i>	25.1%	27.5%	29.3%	30.5%	30.7%	31.1%	30.9%
Shares at year-end (millions)	268.3	268.3	348.4	348.4	348.4	348.4	348.4
EPS	0.9	1.0	0.9	1.1	1.2	1.4	1.6
CEPS	1.0	1.2	1.3	1.6	1.8	2.0	2.1
ROAE	73.5%	68.2%	27.8%	19.8%	19.1%	19.8%	20.3%
ROAA	30.1%	28.9%	9.8%	7.0%	7.4%	8.7%	10.0%

## Balance Sheet

(PLN m)	2009	2010	2011F	2012F	2013F	2014F	2015F
<b>ASSETS</b>	<b>774.9</b>	<b>1 015.2</b>	<b>5 564.8</b>	<b>5 883.2</b>	<b>5 705.5</b>	<b>5 523.2</b>	<b>5 360.9</b>
<b>Fixed assets</b>	<b>340.9</b>	<b>545.2</b>	<b>4 413.5</b>	<b>4 442.6</b>	<b>4 424.2</b>	<b>4 386.4</b>	<b>4 361.2</b>
Reception sets	122.5	275.4	364.2	376.7	355.1	325.5	314.6
Other PP&E	146.2	152.9	3 176.4	3 189.8	3 192.2	3 185.7	3 174.3
Goodwill	0.0	52.0	52.0	52.0	52.0	52.0	52.0
Intangible assets	14.2	23.2	779.1	782.5	783.1	781.5	778.6
Investment property	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments in associates	24.7	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current assets	31.1	37.5	37.5	37.5	37.5	37.5	37.5
Deferred income tax assets	2.2	4.2	4.2	4.2	4.2	4.2	4.2
<b>Current assets</b>	<b>433.9</b>	<b>470.0</b>	<b>1 151.3</b>	<b>1 440.6</b>	<b>1 281.3</b>	<b>1 136.8</b>	<b>999.7</b>
Inventories	122.1	173.2	178.2	200.5	196.7	192.7	188.4
Short-term investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	131.9	184.3	261.1	319.5	331.8	348.3	365.8
Current taxes receivable	21.3	7.5	7.5	7.5	7.5	7.5	7.5
Other current assets	59.3	77.4	77.4	77.4	77.4	77.4	77.4
Cash	99.4	27.6	627.1	835.8	667.9	510.9	360.5
Fixed assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>(PLN m)</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
<b>LIABILITIES</b>	<b>774.9</b>	<b>1 015.2</b>	<b>5 564.8</b>	<b>5 883.2</b>	<b>5 705.5</b>	<b>5 523.2</b>	<b>5 360.9</b>
<b>Equity</b>	<b>330.0</b>	<b>427.9</b>	<b>1 901.6</b>	<b>2 140.0</b>	<b>2 370.0</b>	<b>2 575.1</b>	<b>2 799.1</b>
Share capital	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Reserves	84.2	166.7	1 316.7	1 316.7	1 316.7	1 316.7	1 316.7
Retained earnings	235.1	250.5	574.2	812.6	1 042.6	1 247.6	1 471.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Long-term liabilities</b>	<b>30.5</b>	<b>68.8</b>	<b>3 069.2</b>	<b>3 069.8</b>	<b>2 669.9</b>	<b>2 270.1</b>	<b>1 870.2</b>
Loans	0.0	0.0	3 000.0	3 000.0	2 600.0	2 200.0	1 800.0
Deferred taxes payable	27.8	65.3	65.3	65.3	65.3	65.3	65.3
Other liabilities and reserves	2.7	3.5	3.9	4.4	4.6	4.7	4.9
<b>Short-term liabilities</b>	<b>414.3</b>	<b>518.4</b>	<b>593.9</b>	<b>673.4</b>	<b>665.6</b>	<b>678.1</b>	<b>691.6</b>
Trade creditors	212.8	318.0	387.2	460.7	461.6	481.8	504.2
Loans	47.4	18.0	18.0	18.0	18.0	18.0	18.0
STB deposits	18.8	15.5	12.5	0.0	0.0	0.0	0.0
Other	135.3	166.9	176.2	194.7	186.0	178.2	169.4
Debt	48.8	19.6	3 019.6	3 019.6	2 619.6	2 219.6	1 819.6
Net debt	-50.6	-8.0	2 392.5	2 183.9	1 951.7	1 708.7	1 459.1
(Net debt / Equity)	-15.3%	-1.9%	125.8%	102.0%	82.4%	66.4%	52.1%
(Net debt / EBITDA)	-0.2	0.0	3.4	2.5	2.2	1.8	1.4
BVPS	1.2	1.6	5.5	6.1	6.8	7.4	8.0

## Cash Flows

(PLN m)	2009	2010	2011F	2012F	2013F	2014F	2015F
<b>Cash flows from operating activities</b>	<b>151.8</b>	<b>199.8</b>	<b>462.8</b>	<b>667.3</b>	<b>701.8</b>	<b>763.4</b>	<b>780.8</b>
Net income	230.3	258.5	323.7	400.2	430.1	488.9	546.7
Interest	-8.3	4.5	168.5	198.3	182.4	158.9	135.1
Amortization and depreciation	41.9	81.2	130.2	173.5	192.8	200.2	196.4
Working capital	-123.8	-144.4	-159.7	-104.7	-103.6	-84.6	-97.5
Other	-91.0	-152.9	-88.8	-12.5	21.5	29.7	10.9
<b>Cash flows from investing activities</b>	<b>-42.3</b>	<b>-64.8</b>	<b>-3 847.1</b>	<b>-98.6</b>	<b>-87.0</b>	<b>-77.6</b>	<b>-73.4</b>
CAPEX	-61.9	-71.2	-3 847.1	-98.6	-87.0	-77.6	-73.4
Equity investments	19.5	6.4	0.0	0.0	0.0	0.0	0.0
Other (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flows from financing activities</b>	<b>-251.0</b>	<b>-206.7</b>	<b>3 983.9</b>	<b>-360.1</b>	<b>-782.6</b>	<b>-842.8</b>	<b>-857.8</b>
Debt	-63.3	-29.3	3 000.0	0.0	-400.0	-400.0	-400.0
Shares outstanding	0.0	0.0	1 150.0	0.0	0.0	0.0	0.0
Dividends/share buy-back	-201.2	-152.9	0.0	-161.8	-200.1	-283.9	-322.7
Finance leases	-0.3	0.2	0.0	0.0	0.0	0.0	0.0
Interest	10.2	-4.5	-168.5	-198.3	-182.4	-158.9	-135.1
Other	3.6	-20.2	2.4	0.0	0.0	0.0	0.0
<b>Change in cash</b>	<b>-141.6</b>	<b>-71.7</b>	<b>599.5</b>	<b>208.6</b>	<b>-167.8</b>	<b>-157.0</b>	<b>-150.4</b>
Cash at end of period	99.4	27.7	627.1	835.8	667.9	510.9	360.5
DPS (PLN)	0.8	0.6	0.0	0.5	0.6	0.8	0.9
FCF	79.9	129.5	-3 416.4	531.1	580.1	655.6	681.7
(CAPEX / Sales)	5.3%	4.8%	4.1%	3.5%	2.9%	2.5%	2.3%

## Market Multiples

	2009	2010	2011F	2012F	2013F	2014F	2015F
P/E	17.9	15.9	16.5	13.4	12.4	10.9	9.8
P/CE	15.1	12.7	11.7	9.3	8.6	7.8	7.2
P/BV	12.5	9.6	2.8	2.5	2.3	2.1	1.9
P/S	3.3	2.8	2.2	1.9	1.8	1.7	1.6
FCF/EV	2.0%	3.2%	-44.1%	7.1%	7.9%	9.3%	10.0%
EV/EBITDA	12.8	10.1	11.1	8.7	8.1	7.3	6.8
EV/EBIT	14.7	12.6	13.6	10.9	10.2	9.3	8.4
EV/S	3.2	2.8	3.3	2.6	2.5	2.3	2.1
DYield	4.9%	3.7%	0.0%	3.0%	3.7%	5.3%	6.0%
<b>Price (PLN)</b>	<b>15.35</b>						
Shares at year-end (millions)	268.3	268.3	348.4	348.4	348.4	348.4	348.4
MC (PLN m)	4 118.8	4 118.8	5 347.2	5 347.2	5 347.2	5 347.2	5 347.2
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	4 068.2	4 110.8	7 739.7	7 531.1	7 298.9	7 055.9	6 806.3

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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

**Recommendations of BRE Bank Securities**

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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%  
**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.

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**Comparative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Previous ratings issued for Cyfrowy Polsat**

<b>Rating</b>	Hold
<b>Date issued</b>	2010-12-17
<b>Price on rating day</b>	17.30
<b>WIG on rating day</b>	47516.86