

# Current price PLN 9.40; Target price PLN 10.30

The merger of the DTH platforms of TVN and the French television giant Canal+ is a good deal for the Polish side. TVN will benefit from a 32/68 ownership ratio in the merged platform which approximates the ratio of the respective subscriber bases – contrary to Canal+'s 'Cyfra Plus,' the subscriber base of TVN's 'n' is generating losses. As for ITI, it is selling a 40% stake in N-Vision (which owns a 51% stake in TVN) for about EUR 230m. Given that, together with the equity stake, Canal+ is also taking over 40% of N-Vision's EUR 260m debt, TVN's value as implied by the transaction is ca. PLN 21.5 per share, well above the current market price. Note that this premium does not apply to TVN's minority shareholders, and the only way it can influence the company's current value is through improved investor sentiment. The deal with Canal+ has eliminated some of the risks that to date have been priced in TVN stock, and we expect a price rebound after the recent drop, though the recovery cannot be too strong in the current market environment.

## **DTH service merger**

The agreement between TVN, ITI, and Canal+ consists of two components. The first component is a merger of the DTH platforms, 'n' and 'Cyfra Plus,' into one service under the name of nC+ in which TVN will have a 32% stake and Cyfra Plus will hold a 68% interest (51% Canal+, 17% UPC). TVN's share is close to the upper end of the 20%-33% range projected by us. Such division of ownership is beneficial for TVN. It reflects the ratio of n's and Cyfra Plus's subscriber bases (ca. 850,000 versus 1.6 million subscribers). Since n continues to generate losses while Cyfra Plus posted EBITDA of PLN 220m in 2010, there will surely be a discount in valuation.

Under the agreement, Canal+ has two options to purchase TVN's stake in nC+ on the third and fourth anniversary of the deal. If it does not exercise these options, TVN can sell its stake through an IPO of nC+.

TVN and Canal+ estimate the synergies achievable through the merger at PLN 250m over a three-year period. In our view, this amount is exaggerated and it does not take into account the revenue losses that will probably arise from the elimination of overlapping subscribers whose number we estimate at over 250 thousand. TVN's Management estimate that, through synergies and organic development, nC+ can achieve PLN 550m EBITDA from 3 million subscribers in 2015. Again, we find these estimates quite sanguine. The combined EBITDA of n and Cyfra Plus will be about PLN 200m in 2011, meaning that, taking into account synergies, nC+ would have to generate "organic" EBITDA of an extra PLN 100m in four years' time.

# TVN's PLN 700m gain

TVN puts the value of a 32% stake in nC+ at PLN 1.9bn. This means that, after the merger is finalized in H2 2012, the company will recognize a one-time gain on the revaluation of n of ca. PLN 700m, contrary to earlier expectations of a substantial charge. As a non-recurring event, the gain will probably be ignored by investors who are probably skeptical anyway about TVN's estimation of nC+'s value at a whopping PLN 5.7bn. Assuming it achieves the PLN 550m EBITDA target in 2015, nC+ would be trading at 10.4x 2015 EV/EBITDA.

# Acquisition of minority stake in N-Vision by Canal+

The second component of the TVN/Canal+ deal is acquisition by the latter of a 40% stake in N-Vision for about EUR 230m. Since N-Vision is the indirect owner of a 51% stake in TVN through Polish Television Holding (PTH), by acquiring N-Vision, the French are also acquiring a 20.4% indirect stake in TVN as well as 40% of PTH's debts estimated at EUR 260m. The real cost of indirect ownership of one TVN share amounts to PLN 21.5, representing a premium of nearly 129% to the current market price.

The agreement gives TVN an option to sell a further 9% stake in N-Vision two years after its effective date, and grants Canal+ two options to purchase the remaining shares of N-Vision on the third and fourth anniversary of the deal. If neither party exercises its options, both will be entitled to sell their respective stakes in N-Vision to third parties.

# **Ownership changes at ITI Holdings**

The nC+ agreement was signed parallel to the satisfaction of the conditions precedent to an agreement between the heirs of ITI's founder Jan Wejchert and ITI Holdings, whereby ITI repurchased 33% of its shares from Łukasz Wejchert, Victoria Wejchert, and Agata Wejchert-Dworniak. According to ITI insiders, the money funding the transaction included a EUR 120m loan from Canal+ taken as an advance toward the future payment for N-Vision, plus internal cash resources in an undisclosed amount.

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List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
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

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